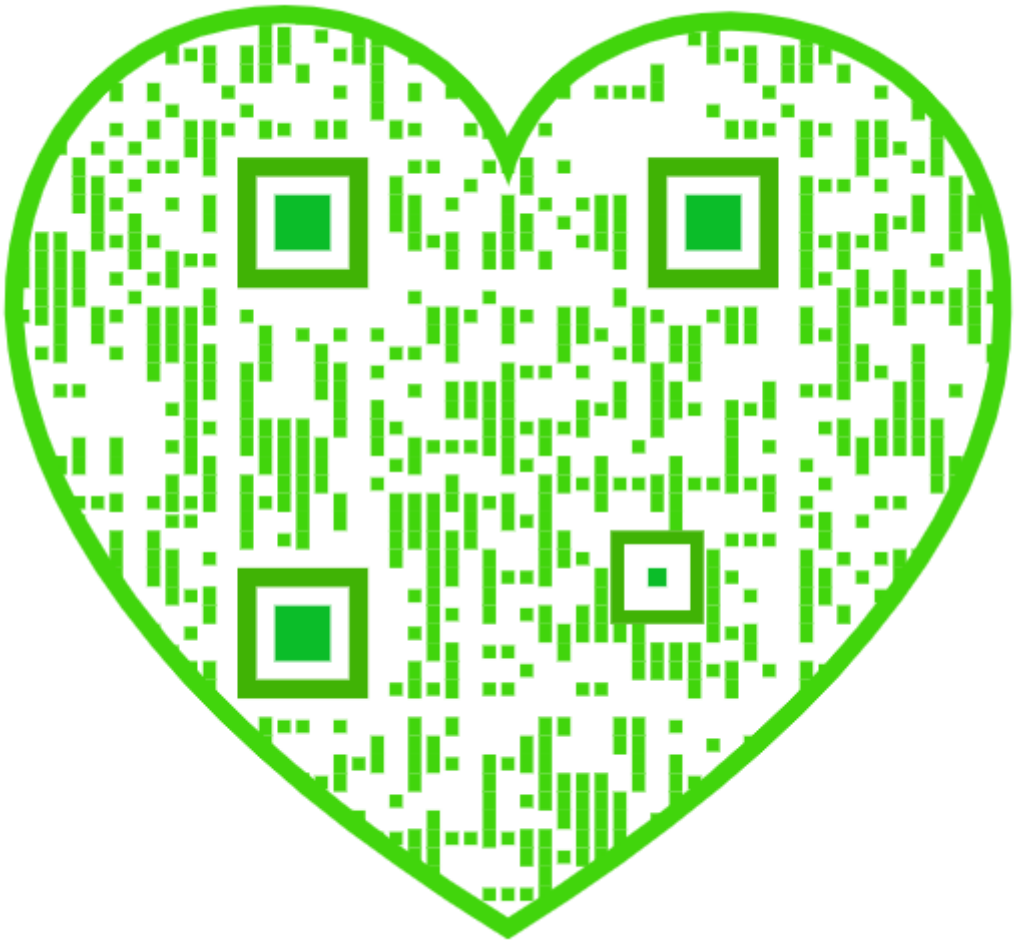

HISTORY

OF

BANKING IN SCOTLAND.

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HISTORY

OF

BANKING IN SCOTLAND

BY

ANDREW WILLIAM KERR,

MEMBER OF THE INSTITUTE OF BANKERS IN SCOTLAND.

GLASGOW: DAVID BRYCE & SON.

1884.

To

MY WIFE,

THROUGH WHOSE ASSISTANCE THE PREPARATION

OF THESE PAGES WAS MADE POSSIBLE,

AND TO

The Memory of my Father,

ANDREW ARMSTRONG KERR,

WHO PASSED A BANKING CAREER OF SIXTY YEARS,

FROM 1823 TO 1883,

IN THE PRIVATE BANKING HOUSE OF

MESSRS. ROBERT ALLAN AND SON,

AND IN THE ROYAL BANK OF SCOTLAND,

This Work

IS DEDICATED.

PREFACE.

THE substance of the following pages appeared as a series of articles in a financial magazine during the years 1880-83. These articles are now presented in a collected form, after revision and extension, in the hope that they may be of service to those who are interested in the progress of Scottish banking. The author cannot hope that he has escaped making errors, but he has taken all possible care, by collation of authorities and otherwise, to ascertain the correctness of his statements of facts. As to the opinions expressed from time to time, he is, of course, solely responsible.

No similar work having, so far as the writer is aware, been ever before published, allowance will, perhaps, be made for incompleteness and other faults, arising from the difficulty of obtaining information. Scottish bankers, and financiers generally, have, with few exceptions, been slow to record their experiences and opinions. Consequently the data from which such a work as the present must be constructed exist only in a meagre and scattered form. A general idea of the sources of information will be obtained from the foot-notes throughout the volume.

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HISTORY

OF

BANKING IN SCOTLAND.

CHAPTER I.

ORIGIN AND DEVELOPMENT OF SCOTTISH BANKING.

THE state of Scotland at the close of the seventeenth century—the period at which Scottish banking commenced—was not favourable to commercial enterprise. Foreign and domestic wars and tumults had, from time immemorial, drained the country of its hardiest manhood and of its scanty treasure. Commerce, except in that minimum proportion which is indispensable to the distribution of the necessaries of life, had never had opportunity to establish itself. The nation was sunk in poverty. Even the few large landowners could only be called wealthy in comparison with the plain living commonalty, who could with difficulty supply their wants. Even the officers of the Crown were in the enjoyment of but petty incomes, which the evil fortunes of the nation frequently interrupted the payment of. The currency was debased in quality, and scarce in quantity. It would appear that payment in kind was usual in the settlement of rents, and it is probable that

barter in some forms was not uncommon in the more remote country districts. The history of Scotland as an independent country is one of almost constant misfortune; for even the brilliant victories gained by the Scots over their great enemies, the English, were but the barriers which averted ruin. They did not, like the triumphs of the French or of the Spaniards, add new territory to the State, or increase the wealth of the kingdom. They merely enabled the unconsolidated community to continue its rude existence in independence at the cost of chronic penury, intensified by internecine feuds and periodic *coups d'état*. Eventually the nation reaped a rich reward for the sufferings it had endured in the struggle to preserve its freedom, for it gained access to boundless fields for the exercise of its restless energy, achieved large profits for its untiring activity, and became united into one of the most law-abiding and industrious countries in the world. At the time when our history begins, however, the clouds of night were still overshadowing the country, and the sun of prosperity, destined to shine with undimmed splendour, had not yet risen on the national horizon.

The Union of the Crowns of England and Scotland in the year 1603, by the accession of James VI. of Scotland to the throne of England, put an end to the hereditary warfare waged for centuries between the kingdoms; but though the wounds were bound up they were not healed, and international jealousy and dislike still prevented the full advantage of community of interests. As being the weaker power, Scotland suffered most in this new phase of its struggle with its domineering associate, who ever and anon checked its enterprise whenever it seemed to trench on English prerogatives. It did, however, snatch an uneasy

rest during the forty years which elapsed before the great civil war between the Commons and the Crown broke out in 1642. In that six years' struggle, as in all the succeeding troubles, the efforts of Scotland were generally spent on the losing side. The Scots, indeed, escaped the brunt of the conflict, but they suffered terribly in the end by the iron hand of Cromwell, whose power they had well-nigh crushed at Dunbar, but for the infatuation of their clerical dictators prevailing over the military skill of their sagacious general, Leslie. Through the Commonwealth and the restored Monarchy, the country's grievances continued; and it was not until the peaceful revolution of 1688 placed the constitution on a firm basis, that there was even the possibility of prosperity for Scotland; and not until the effects of the legislative union of the countries in 1707 had had time to develop themselves, that the nation's spirit was at rest.

With the revolution settlement of domestic affairs began a new and brighter era in the commercial and financial history of Britain, which the warlike foreign policy of successive administrations was not potent enough to neutralise. England drifted from one quarrel into another, and accumulated a national debt which at last reached an amount unequalled in the world's experience, until, in our days, German ambition sought to crush French aggression under the weight of financial difficulties. While the national exchequer was empty, and irregular methods were adopted to replenish it, nay, even as the immediate consequence of a system of state lotteries and forced loans, the foundation of the great fabric of British finance was laid. That it was laid in such unfavourable circumstances, established in the erroneous principle of

monopoly, and fostered by exclusive privileges, granted as the price of pecuniary aid to the Crown, has been the source of woes unnumbered to the banking system of England. But, as far as Scotland was affected by it, the influence of the change of dynasty was only good. The Highland interest being strongly enlisted in favour of the Stuarts, did, it is true, assert itself by force of arms; but this was no new experience, and it was soon overcome. The nation, as represented by the more consolidated portion of the community, was enabled to follow the lead in the organisation of a financial system, and, by reason of its independent constitution, to found it in a free and untrammelled condition. It has been a fortunate circumstance for Scotland that, in borrowing the idea of establishing joint-stock companies for the advancement of industrial enterprise, the Parliament of Scotland avoided the temptations yielded to by the Parliament of England, and did not seek to fill the national coffers at the expense of the future interests of the nation. Banking in England has been crippled and enfeebled by the pernicious monopolies granted to, and the onerous responsibilities imposed upon its first joint-stock bank; while in Scotland the banking system has been developed and matured under natural and unfettered conditions. Thus, south of the Tweed, banking legislation, in a series of makeshift patches, has produced a multiplicity of conflicting interests which have to be subjected periodically to readjustment, in order to preserve even partial satisfaction among the unequally weighted competitors. In the history of banking in Scotland, on the other hand, there is comparatively little trace of unequal legislative treatment—all the banks competing in most essential points under similar condi-

tions. What unfairness actually exists, is due entirely to the introduction of English ideas, and is limited, for the most part, to the department of note-issuing, as regulated by the Act of 1845. We are not at present discussing the merits of Sir Robert Peel's measures, but we desire to point out that they introduced, for the first time, the principles of restriction and exclusion in Scottish banking legislation. The Scots Parliament of 1695 did, indeed, recognise the principle of monopoly, when establishing the Bank of Scotland; but it was understood (and the result justified the supposition) that the exclusive privileges granted to that corporation were designed merely to give it a fair chance as an entirely new experiment, and were not to be renewed at the end of the term of twenty-one years for which they were granted. That this special encouragement should have been granted, was unquestionably wise. It would have been unfortunate, if, at that early stage, the development of banking had been checked, through competition in a field where the probability of success, on the part of even one establishment, was absolutely uncertain. Had a similar course been pursued in England—had the exclusive privileges of the Bank of England been withdrawn as soon as its probation was over, the roll of English bankers would have been a much less melancholy catalogue than it has proved to be, and the currency question need never have occasioned the trouble and vexation which have characterised it up to the present time. But, unfortunately, the poverty and ambition of successive Governments made them the creatures of their powerful creditors, and tempted them into erroneous principles of legislation, which have produced the most artificial financial system existing in the world. Through

struggles and crises, amendments have been made which enable the units of the system to hang together—the inevitable jarring which occurs every few years being temporarily overcome by some special arrangement, generally involving the creation of one or more new species of banks. Thus it happens that, at the present time, there are about a dozen distinct classes of banks in England, each subjected to peculiar legislative provisions. At the same time, owing to the operation of the enactments limiting the number of partners in private banks, and discouraging amalgamations, there has always been an unfortunately large number of small establishments whose fortunes depend on the prosperity of particular localities, and the resources of small coteries, instead of having the broader basis of the general experience of the nation, and the wealth of large proprietaries.

The Scottish banks, too, show some diversities in the legislative conditions under which they exist, for which they are indebted to English statesmanship. But the national spirit of Scotland has to a large extent prevailed over attempts to reduce the uniform and matured system, evolved by wholesome experience, unfettered by Governmental interference, to the hampered condition of the English banking system. The inequalities existing—viz., the privilege of undesignated limitation of liability of stockholders in some of the banks, and the disproportion in the amounts of authorised issues of notes among the several establishments—are not such as to interfere with free competition between the members of Sir Robert Peel's charmed circle. They are, indeed, recognised as grievances, but the banks are content to let them lie over. To contrast with the multiplicity of classes of banks in

England, there are three in Scotland—namely, chartered banks, presumed to be limited in virtue of the character of their incorporation; chartered banks, formerly unlimited, now limited by registration under the Companies Act, 1879; and banking companies incorporated and limited under the Companies Acts 1862-80. As the two latter classes are practically the same, there are really only two classes of banks in Scotland. Under the provisions of the Companies Acts, 1862 to 1879, all essential constitutional distinctions disappear as far as the Legislature is concerned, and there remains only the partly sentimental injustice of enforcing on all but the three oldest banks the addition of the invidious and inelegant word "limited" where, in point of fact, the distinction is altogether inappropriate. The first-mentioned class of banks embraces the Bank of Scotland, the Royal Bank of Scotland, and the British Linen Company. The second class includes the Commercial Bank of Scotland (Limited), and the National Bank of Scotland (Limited). The third class consists of the Town and County Bank (Limited), the Union Bank of Scotland (Limited), the North of Scotland Bank (Limited), the Clydesdale Bank (Limited), and the Caledonian Banking Company (Limited). Together these form the roll of the Scottish Banks in the order of their formation. The Bank of Scotland is established under special Acts of Parliament; the other two old chartered banks, and the two senior "limited" banks, are incorporated by Royal Charter; and the five youngest banks are enrolled under the Companies Acts of 1862-80. All of them exercise the power of issuing notes, and carry on business in all the departments usually included by British economists under the term banking. These operations may be

classified broadly into borrowing, lending, and investment. The companies obtain money from their own members to form the capital and other private funds of the corporation, and from the public under notes payable to bearer on demand, deposit receipts, current accounts, letters of credit (now generally called drafts), for the remittance of money between various localities in the United Kingdom and abroad, and circular notes for the use of travellers abroad. The money thus obtained is lent on the security of bills at a currency (usually three to six months after date), cash accounts, over-drafts, heritable and personal bonds to mercantile firms and other customers, and other securities. It is understood that advances by bankers should be on tangible and readily convertible security. Within recent years, the acceptance of bills on account of customers has become an important part of banking business. A large proportion of the funds is held in reserve as cash, investments in first-class Government and other stocks, short loans to financial houses, and bills of exchange of the most approved description. To the efficient carrying on of their business, and establishing themselves on broad bases, the Scottish banks have spread their branches over Scotland so thoroughly that there is no district, with an appreciable nucleus of population, unprovided for. All the large banks have, moreover, opened offices in London, and the Clydesdale Bank has, in addition, a few branches in the north of England. Thus, although there are only ten distinct banking establishments having their head-quarters in Scotland, there are no fewer than 900 bank offices. The amount of capital administered by the banks is more than £105,000,000, of which about £14,000,000 consist of the

private funds of proprietors, £80,000,000 of deposits, and £6,000,000 of bank notes, the balance of £5,000,000 being represented by acceptances and drafts. There are 14,000 partners, and 420,000 depositors, of whom three-fourths appear to be deposit receipt holders. While, as among themselves, the banks carry on a very active competition, their dealings with the public are regulated by tariffs drawn up in concert, and adjusted from time to time by mutual consent. Thus as regard rates of interest, discount, and commission, there is practical uniformity throughout the country—the discretionary powers in these matters being of small extent. As far as terms are concerned, therefore, customers have no inducement to favour one establishment more than another. Of the ten existing banks, five have their head offices in Edinburgh, two in Glasgow, two in Aberdeen, and one in Inverness. The Edinburgh banks were all established before any of the others, and transact 70 per cent. of the entire banking business of Scotland. The Glasgow banks conduct 23 per cent., and the provincial banks 7 per cent. of the business.

This, then, is roughly the position of banking in Scotland at the present time. It is indeed a mighty edifice, built up (as the sequel will show) from a very small beginning by shrewdness, economy, and industry during the last hundred and eighty-eight years. The history of banking in Scotland is most intimately associated with the national progress from poverty to wealth; and the characteristics of the system of banking which have been developed are in many points unique, and marked by the peculiar circumstances which have moulded the Scottish character. The result of the experiment so modestly attempted in 1695 has, despite many and grievous failures,

and at least one deeper stain than the financial community of any other nation has cause to blush for, been a great success. In treating of English banking, if we have represented it historically in an inferior light, we do not mean to gloss over or extenuate the weaknesses displayed, especially during the present century, by Scottish bankers, nor to deny the glory due to their southern brethren for the magnificent financial fabric they have reared under conditions which, if commercially superior, have been legislatively inferior. And in regard to scientific exposition and research, Scottish bankers cannot bear comparison with the financiers of England. English banking, following the commercial prosperity of the country, has become the most widely extended in its range, and the most voluminous in the amount of its transactions, of the banking systems of the world. But Scottish banking has this peculiar glory, that it has been in large measure the means of producing and securing the prosperity of the country, which has in turn expanded it to the proportions we have described. In making such a comparison, it must, however, be borne in mind that the political and commercial positions of England and Scotland have always been widely different; and that, of course, as a matter of cosmopolitan importance, the state of English banking is of much greater moment than that of Scottish banking. At the same time, the history and operations of the Scottish banks have not only great interest for the people of Scotland, but vitally affect the welfare of the empire and of the world. In the words of a recent writer on Scottish banking, "The banking question, whether discussed in London or Paris, always reverts to the history of the Scotch banks as a fragment indispensable to the con-

troversy."* Their operations have been so admirably adapted to the requirements of the country, and have so effectively led its agriculture, manufactures, commerce, and every branch of industry to a high state of prosperity, without special devotion—as is usual in other countries—to particular departments of business, that they are universally looked to as efficient exponents of practical banking.

The existing banks are all public joint-stock corporations. For about forty years there has been no private banking firm in Scotland, among the last being the famous house of Sir Wm. Forbes, J. Hunter & Co., who amalgamated in 1838 with the Glasgow Union Bank, afterwards the Union Bank of Scotland, although their firm continued to be used for a few years in connection with the Edinburgh business of the bank. The less conspicuous house of Alexander Allan & Co. appeared in the Edinburgh directories as bankers for about twenty years later; but it would seem that for some time previous they had practically ceased the active conduct of banking business. With this exception, the last private banking firm extant in Scotland was Dunlop, Houston, Gemmell, & Co., who carried on business as the Greenock Banking Co. until 1843, when they amalgamated with the Western Bank of Scotland. Shortly before these events, a shock had been given to the system of private banking by the failure of several firms, and the withdrawal from business, on account of losses, of the important firm of Ramsays, Bonars, & Co. Private banking has, however, been a very important element in the history of Scottish banking, at least one-

* "The Scotch Banks and System of Issue"—Robert Somers. Edinburgh, 1873,—p. 71.

half of the establishments formed in the country having been on that principle, while several others, although nominally joint-stock, may for most purposes be included in the category. Considerable, and in some cases large, fortunes were made by private bankers, but their ultimate success does not seem to have been great, as only about half-a-dozen reached the stage of amalgamation, the others being either sequestrated or wound up. In all, there appear to have been at least ninety-six distinct banking establishments formed in Scotland up to the year 1845. Since then no new bank has been formed.* Of that list, thirty-six failed and were wound up, ten passed out of existence from unexplained reasons—in all probability for the most part insolvency—six retired voluntarily, thirty-three amalgamated with other banks, and eleven (including the almost unknown North British Bank†) remain in business. It will thus be seen that the narration on which we are about to enter is by no means uncheckered by sad vicissitudes. Indeed, the operations of the Scottish banks have been attended by a large amount of mismanagement and recklessness, and have produced a full proportion of bankruptcies, entailing ruin on partners, and sometimes loss to creditors. It is but justice, however, to add, that the cases where creditors have suffered severely are comparatively few in number, and are confined entirely to the smaller class of offices. The total amount of the deficits is in but trifling ratio to the aggregate liabilities of the banks.

* The Scottish Banking Company (Limited) was formed at Dundee a few years ago, but as its affairs do not seem to be made public, it cannot with certainty be included among the banks in Scotland.

† The North British Bank is, properly, an exchange company, and not a bank; but it is sometimes included in the published lists of the banks in Scotland. See *post.* chap. xix.

CHAPTER II.

THE DARIEN COMPANY.

It is a curious fact in the history of Scotland, that the first considerable effort at joint-stock enterprise made there, was at once the most ambitious and the most unfortunate, was accompanied by the largest amount of patriotic enthusiasm, and was the most unsuited to the national circumstances, of any in which the nation has been engaged. The fortunes of the Company of Scotland Trading to Africa and the Indies were for long, and to some extent are yet, a sadly-remembered episode in the annals of the kingdom. But, grievous as was the blow inflicted on the nation by the ruin of their darling Darien scheme, and culpable as the English authorities, from their Sovereign downwards, were in their conduct towards the company, it may be doubted if the enterprise possessed in itself the elements necessary to success, and if the national enthusiasm did not get diverted into an entirely wrong channel. Now that the lapse of time permits an unbiased judgment, it appears almost an absurdity that a nation who had never been able to secure the blessings of peace and prosperity within their own borders should, while so much remained to be done at home, have tried to imitate their wealthy neighbours in the creation of a colonial empire. The amount of capital sunk, and the number of human lives lost in that deplorable attempt might, if saved and utilized at home, have greatly antedated the advent of national prosperity.

In fairness, however, to our courageous ancestors, it must be admitted that the means of utilizing the national energies were then in a very deficient state. The accessories necessary to the production of commodities on such a scale, and of such quality, as successfully to compete with foreign markets, were not possessed by the people; the motive power of industry—capital—was not within their reach. What they could do with the limited powers at their command they did, toiling at their linen and other manufactures, protected by their parliament's prohibitions against the use of the superior fabrics of foreign nations. But, from the time when they got the aid of a banking system and a sufficient currency, they made great strides, not without stumbles, it is true, yet more rapidly and more surely than any other nation before them.

When the Scottish leaders got personal experience of the power of English commerce, and of the influence of trading associations in promoting wealth, they were not slow to evince a desire to procure the same advantages for their native country. The troublous times appear, however, to have interfered with practical action; and it was not until late in the seventeenth century that the Legislature began systematically to make special provision for the encouragement of trade. One of the most important of the measures passed was the Act 1693, chapter 32, "for the encouraging of Foreign Trade," in which "our Sovereign Lord and Lady, the King and Queen's Majesties, Considering how much the Improvement of Trade concerns the Wealth and Welfare of the Kingdom, and that nothing hath been found more effectual for the improving and enlarging thereof than the Erecting and Encouraging of Companies, whereby the same may be carried on by

Undertakings to the remotest Parts, which it is not possible for single Persons to undergo," proceeded to authorise the association of merchants and others for commercial enterprises in all parts of the world "where Trade is in Use to be followed" with promise of protection and encouragement. It would not seem, however, that much practical result immediately followed this measure; but it paved the way for two important acts of the session 1695, incorporating the commonly-called Darien Company, and the Bank of Scotland. The former was the product of the fertile genius of William Paterson, whose character and abilities have been variously estimated. It is evident that he was a man of great energy and perseverance, and had powers of perception and organization of a high order. Driven, at an early age, from his native Dumfriesshire by adverse circumstances, he passed into England and engaged in trade, apparently with much success. There he took an active and influential part in financial and commercial discussions, in which he shows that, although not entirely free from the erroneous views prevalent at that time on such subjects, he was very far in advance of his contemporaries. He projected the Bank of England, and succeeded, in spite of considerable opposition, in getting it established in 1694, and was one of its original directors. But, owing to disagreements with his colleagues, he did not retain his seat at the board many months, and he does not seem subsequently to have taken any part in the management of the bank. After directing his energies to the establishment of an "Orphan Bank" and other schemes, he conceived his great project of establishing a colony on the Isthmus of Darien for trading purposes. It was expected that this colony would become the *entrepôt*

of the trade of Europe with Asia, as well as with the West Indies. In one of his letters to the Darien Company, Paterson says: "The time and expense of navigation to China, Japan, the spice islands, and the far greater parte of the East Indies, will be lessened more than half, and the consumption of European commodityes and manufactories will soon be more than doubled. . . . Thus the door of the seas, and the key of the universe, with anything of a reasonable management, will enable its proprietors to give laws to both oceans, and to become arbitrators of the commercial world."*

At first Paterson endeavoured to launch his project in England; but it was treated with indifference or disfavour by those he consulted. He then went to Holland, in the hope that Dutch and Hamburg merchants would favour the idea; but no more success attended him there. Returning to England, it is said that Fletcher of Saltoun "persuaded him to trust the fate of his project to his own countrymen alone, and to let them have the sole benefit, glory, and danger of it." It would seem, however, that although the scheme was to be a Scotch one, English and Dutch support was still sought, and it was obtained when Scotch enthusiasm seemed to promise success. In his scheme he appears to have had influential associates both in Scotland and London. An act authorising and incorporating a company for carrying out the proposal was obtained from the Scots Parliament on 26th June, 1695. In the words of Paterson's biographer, "the original plan was to share the hazards of the design, in reasonable proportion, between the Scots and the English; and foreigners were to be invited to join them both. . . .

* "Memoirs of Great Britain and Ireland"—Dalrymple. London, 1771-88,—vol. iii., p. 93.

The original leaders of it, whose names are inserted in the Act, were nine [ten] residents in Scotland, with Lord Belhaven, and the Lord Provost of Edinburgh, Sir Robert Chiesley, at their head; and eleven residents in London, merchants, with William Paterson and Thomas Coutts at their head. . . . Mr. Paterson is found to be a subscriber for £3000, and his servant for £100."* The floating of the Indian and African Company of Scotland met with great opposition from interested parties in London; its promoters were threatened with impeachment, and the English, Dutch, and Hamburg subscriptions, which had been obtained to the extent of £500,000, were withdrawn at the command of the king, who was pressed to such action by the English Parliament. After in vain seeking renewed countenance in Holland, the promoters appealed to Scotland alone. The appeal was strikingly successful. "The frenzy of the Scots nation to sign the Solemn League and Covenant never exceeded the rapidity with which they ran to subscribe to the Darien Company. The nobility, the gentry, the merchants, the people, the royal burghs, and most of the other public bodies subscribed." The national spirit was raised to a high pitch of enthusiasm by the jealous opposition of the English, and by the hope of great profit from the adventure. Although at that time the country was so poor that its total currency did not exceed £800,000 (according to authoritative estimates), a capital of £400,000, of which more than half was paid up, was eagerly subscribed. Much time was occupied in preparation for the departure of the expedition, in the course of which Paterson was unfortunate enough to get

* "William Paterson: His Life and Trials"—S. Bannister. Edinburgh, 1858,—p. 129.

involved in the loss of several thousand pounds of the company's money. An investigation at the time cleared his personal character, but from that time his influence in the enterprise was greatly diminished. From being the prospective leader he became a mere supernumerary. At last all was ready, and "on the 26th day of July, of the year 1698," says Sir John Dalrymple, "the whole city of Edinburgh poured down upon Leith to see the colony depart, amidst the tears and prayers and praises of relations and friends, and of their countrymen. Many seamen and soldiers, whose services had been refused, because more had offered themselves than were needed, were found hid in the ships, and, when ordered ashore, clung to the ropes and timbers, imploring [to be allowed] to go, without reward, with their countrymen." The expedition consisted of five well-armed ships, laden with merchandise, and having twelve hundred men on board. They arrived at their destination with but small loss, and the colony was formally established as New Caledonia, with New Edinburgh as its chief town. But difficulties and hardships were soon encountered, and severely tried the colonists. English opposition was carried to so great an extent, that the West Indian and American colonies were forbidden to sell food to the Scottish expedition, or to give them any assistance. Relying on obtaining from the neighbouring colonies such supplies as they might need, the Scots had brought with them little more than they required for the voyage. They were therefore reduced to depend for sustenance on the produce of the country, and that was both scanty and bad. Disease broke out, and many of the colonists died. Divided command among the leaders led to serious dissensions, and, encouraged by the

openly manifested opposition of the English authorities, the Spaniards became menacing. Denied any assistance from the neighbouring colonies, the adventurers endured great miseries, under which their spirit was broken. At last, to avoid starvation, they abandoned the colony. Eight weeks afterwards, a second expedition arrived. These suffered as severely as their predecessors, and in one respect were even worse circumstanced. Four Presbyterian clergymen, who had been entrusted with the spiritual oversight, began to lecture and denounce them for their sins, continuing their services for hours without intermission, relieving each other by turns, while their heart-broken and wearied flock sat dumb before them. When they had been three months in the colony, they were joined by another party. Though apparently small in numbers, they brought a great accession of strength in the person of the able soldier, Colonel Campbell of Finab. The Spaniards soon advanced a strong force against the colony both by sea and land. Campbell gallantly defeated the land force, and maintained a brave defence against the ships. After enduring great privations, to which many of the colonists succumbed, they were obliged to submit. A third expedition, consisting of about thirteen hundred men, did not fare better than their predecessors, and were forced to abandon the enterprise. After having capitulated to a large Spanish force, on honourable terms, the Scots finally evacuated the colony in April, 1700. Of the original expedition, only thirty persons are reported to have returned to Scotland; and, according to an account published in 1787, "from first to last, two thousand Scotsmen lost their lives in this unfortunate adventure."*

* "History of Edinburgh"—Alex. Kincaid. Edinburgh, 1787,—p. 284.

The effects of this catastrophe on the Scottish nation were very marked. The great loss of life and property which had been sustained was felt throughout the land and among all classes, for the movement had been a national not a party one. The people might, however, have mourned their dead, and borne their pecuniary losses, with that equanimity which they had so often displayed on other trying occasions, had it not been for the knowledge that their griefs were due to the neglect of their Sovereign and the jealousy of his English subjects. As it was, their vexation broke out in wrath. "Nothing," says Sir Walter Scott, "could be heard throughout Scotland but the language of grief and of resentment. Indemnification, redress, revenge, were demanded by every mouth, and each hand seemed ready to vouch for the justice of the claim. For many years no such universal feeling had occupied the Scottish people."

CHAPTER III.

THE BANK OF SCOTLAND.

It was in the midst of the experiences described in the last chapter that the earliest of Scottish banks came into existence, and passed the first few years of its career. On the 17th July, 1695, three weeks after the incorporation of the African and Indian Company, the Scots Parliament passed an "Act for erecting a Publick Bank," which, together with six other Acts subsequently obtained, forms the constitution of the Bank of Scotland. The preamble recites how "Our Soveraign Lord, considering how useful a Publick Bank may be in this Kingdom, according to the custom of other Kingdoms and States; and that the same can only be best set forth and managed by Persons in Company with a Joynt Stock, sufficiently indued with these Powers, and Authorities, and Liberties, necessary and usual in such Cases; Hath therefore Allowed, and, with the Advice and Consent of the Estates of Parliament, Allows a Joynt Stock, amounting to the Sum of Twelve Hundred Thousand Pounds [Scots] Money, to be raised by the Company hereby Established for the Carrying and Managing of a Publick Bank. And further Statutes and Ordains, with Advice foresaid, That" certain persons named should have power to receive subscriptions from the 1st November to the 1st January succeeding, and that the subscribers "are hereby Declared to be One Body Corporat and Politick, by the Name of the Governour and Company of the Bank of Scotland." After sundry provisions regarding

the election of office-bearers, and the general management of the bank, and other matters, it is enacted that during the space of twenty-one years "it shall not be Leisom to any other Persons to enter into and set up an distinct Company of Bank within this Kingdom, besides these Persons allenarly in whose Favours this Act is granted." Among the names mentioned in the Act are several which also appear in the African and Indian Company's Act; but there is one notable exception. Seven London merchants are included in the list, of whom the names of John Holland and Thomas Coutts are specially interesting. But William Paterson, the founder of the Bank of England, the foremost Scotsman of the time in the domain of finance, he who, according to a contemporary poet, could "persuade a nation bred to war to think of trade," is too busy leading his countrymen on a will-o'-the-wisp chase, to interest himself in a matter which far more concerned his country's good than all his dreams of foreign wealth. He even appears to have viewed the banking project with disfavour, but for what reason is not apparent. To whom the credit for the original idea of a bank in Scotland is due seems unascertainable; but it is understood that Mr. John Holland, whose name is inserted in the Act, a merchant in London, drew up its constitution at the request of several Scotchmen resident in London. At the outset, the governor and one-half of the directors were elected from among the proprietors resident in London, the deputy-governor and the other half of the board being chosen from among the Scottish proprietors. Mr. Holland was the first governor. Subsequently, from want of interest in the bank leading to a gradual decrease in the number of English proprietors, the practice of electing London

directors was abandoned. Mr. Wenley says—"It would appear that Mr. Holland's Scotch bank had not found much favour with his English friends; but there can be no doubt that, under his care, it had been judiciously planted, and had fairly taken root."* Although, as we have seen, the Bank of Scotland got its credentials on 17th July, 1695, it was not until the new year that the share-subscriptions were completed, and the bank actually commenced business. The payments on application for stock, amounting to £10,000 sterling, or 10 per cent. of the subscribed capital, sufficed for their requirements. They began at once to issue notes of £100, £50, £20, £10, and £5, and in 1704 they adopted a £12 Scots (value £1 sterling) denomination. At first the lending of their capital and the issue of notes constituted the whole of their business, but very soon they attempted to engage in exchange business, for we find that in this first year of their active existence (1696) they established branches at Glasgow, Aberdeen, Dundee, and Montrose. It is possible that the immediate cause of this movement was an attempt made by the African and Indian Company to engage in the business of banking, as a set-off to their failure in Darien, and the unremunerative nature of their other commercial ventures. This action was, of course, a direct infringement of the legal monopoly of the bank, justifiable only by a literal interpretation of the prohibitory clause of the bank's Act, which forbade the setting up of "a distinct company of bank." Not feeling themselves strong enough, however, to contest the point, the bank allowed their opponents to carry on their competition undisturbed; and very soon it was found that the latter

* "Journal of Institute of Bankers," vol. iii., p. 121.

were as unable to command success in banking as in their legitimate business, and they retired from the field. In the year succeeding the establishment of the bank's branches, the directors, finding* that the expense of conducting them greatly exceeded the profit obtained, withdrew them, and the attempt was not renewed during the currency of their monopoly. To meet their extended operations they had increased the paid-up capital to £30,000; but when they again confined their business to Edinburgh, it was reduced to the former amount by repayment of £20,000 to the proprietors.

In February of the year 1700, they had the misfortune to be burned out of their office, which was situated in Parliament Close, but they do not seem to have sustained much injury therefrom. It was not long, however, before their affairs assumed a grave aspect. The issue of notes had doubtless proved a great boon to the public, as well as a source of profit to the bank, but the use of them was not at this time so general as it afterwards became. As an addition to the currency they were acceptable; but coin was still the recognised medium. In 1704 a scarcity of coin, occasioned by a persistent drain of bullion (probably to meet the foreign payments of England in connection with the wars under Marlborough, who gained his great victory over the French at Blenheim in August of this year), began to be severely felt. A rumour "that the Privy Council was to cry up the value of species," as it was quaintly termed, brought matters to a crisis with the bank. In the words of an official print, dated 28th December, 1704, and syled a "Memorial and Intimation from the Governour and Coy. of the Bank of Scotland,"

* Parliamentary Report, 1841.

these circumstances "occasioned a very great, unexpected, and unaccustomed demand upon the bank, which at last had such effect, that on Munday the 18th of this instant December the money in the Bank was wholly exhausted, and thereby payments stopt." Thus, in language contrasting strangely with the euphonious circulars in which firms now announce their inability to meet the demands of creditors, did the directors of the Bank of Scotland intimate that they had suspended payment. Confident, however, in the perfect solvency of the corporation, they proceeded to state that application had been made to the Marquis of Tweeddale, the Lord High Chancellor, craving an inspection of the books. Thereupon the Earl of Loudoun, Lord Belhaven, the Lord President of the Court of Session, and others, met at the bank, and after examination they "find that the Bank hath sufficient Provisions to satisfie and pay all their outstanding Bills and Debts; and that with a considerable Overplus, exceeding (by a fourth part at least) the whole foresaid Bills and Debts." A general meeting of the adventurers was called, who sanctioned the allowing of "annual rent" on the notes "from the stop," to procure their continued currency, and made a call of 10 per cent. on the nominal capital, amounting to £10,000. This sum was repaid two years later. With these arrangements the difficulty was overcome, and the bank learnt its first lesson in the absolute necessity of maintaining an efficient bullion reserve. It had probably been loth to supplement its falling stock, owing to the great expense attending such an operation. This will be readily understood, when it is remembered that the cost of bringing gold from London amounted then to 8 per cent. or 9 per cent. on the remittance.

The year 1704 is farther noticeable, from the first step in the assimilation of the Scottish to the English currency having been taken, by the bank then commencing the issue of notes of the value of £1 sterling. Their circulation was, however, very limited until after the union of the countries.

Three years after the incident we have just narrated (1st May, 1707), the legislative union of England and Scotland was accomplished, after protracted and acrimonious negotiation. That event is now regarded as a mutual blessing to both nations; but it was not generally so considered at the time. Haughty and contemptuous, the English looked on it as a means of staving off the troublesome incursions of the northern wolves. The Scotch, on the other hand, detested the proposition, and but for intrigue and bribery among the members of Parliament, the Act of Union would not have passed. The people were not, however, long in finding out the material benefits accruing to them from federal union with their wealthy neighbours, and from that time Scotland rapidly advanced in civilization and commerce. The national coinage being then in a very unsatisfactory condition, the Bank of Scotland was entrusted with the duty of superintending its improvement. The total metallic currency of Scotland at that time has been estimated at £800,000 or, according to one authority, £900,000. Of this, £411,117 10s. 9d. was brought in, in exchange for new coin. It is interesting to note that only £239,636 13s. 9d. was native coin, the rest consisting of £132,080 17s. of foreign and about £40,000 English coin. This operation took place in 1707. In that year the bank first assumed the *rôle* of a bank of deposit, but did not then allow interest on the money paid in.

During the Jacobite troubles of 1715 the bank, being suspected of favouring the Pretender's cause, fell into disfavour with the Crown. To this is ascribed the favourable reception, some years afterwards, of the request by the Equivalent Company to have banking powers conferred on them, and the special recognition and support accorded to them for long afterwards as the great rival of the Bank of Scotland.

It does not concern us to trace the course of the rebellion, which, indeed, does not seem materially to have affected the country in general. But it is interesting to observe its effects on the Bank. That establishment, despite the insignificance of its financial position from a modern point of view, appears to have been a considerable power in the land. But its influence was apparently (but doubtless secretly) enlisted more in the cause of popular patriotism (according to the light of those days), than in the interest of public order and loyalty, as these were regarded by the dominant party. For this disaffection to King George, the Bank was severely punished twelve years later; and even at the time it suffered from the results of the rebels' action. The Town Council of Edinburgh made successful endeavours to provide for the security of the city; but the approach of a detachment of the Pretender's party produced so much alarm among the citizens, that a severe run on the Bank took place. It is recorded that "the enterprise began on the part of the rebels with an unsuccessful attempt to seize the Castle by surprise; and the run on the Bank of Scotland was so great, that they stopped payment on the 19th September [having apparently sustained it for eleven days], and ordered their notes to bear interest from that date." The

date of their resumption of payment is not stated; but as tranquillity was restored by the arrival of troops from Holland in December following, it may be presumed that the bank had recommenced business by the early months of 1716. In that year, as the result in all probability of the interruption of its business, it does not appear to have paid any dividend. As this was quite an unusual circumstance, even in those early days of the bank's history (as far as we are aware it occurred only once before and never after), and as, when dividends were resumed, they were at lower rates than those immediately preceding the cessation, it would seem that the bank had suffered considerably from the untoward train of events. The proprietors could, nevertheless, afford to dispense with a year's dividend, seeing their profits had been of a very substantial character. From an apparently authentic record we find that, for the twenty-nine years ending with 1727 (the date of the incorporation of the Royal Bank), the allocated profits averaged 17 per cent. on the capital. After the first stoppage (1704) the rate fell to 6 per cent., but it was rapidly raised again until it reached 30 per cent., at which it stood for three years prior to the second suspension (1715-16). In the succeeding eleven years the rate varied from 10 per cent. to 22½ per cent., and the bank enjoyed an undisturbed and lucrative monopoly. Its exclusive privileges had lapsed in 1716, but no competitor had arisen to contest its sway in the domain of finance. Indeed, there are indications that in those days an opinion prevailed pretty generally that, while one bank was necessary, a plurality of banks was unadvisable and even dangerous. The great South Sea Bubble and the other speculative manias which in 1719-20 grievously

afflicted the English nation, appear to have had little effect on Scotland.

The prosperity of the Bank of Scotland did not pass unobserved. Although up to 1726 no actual competition, other than the ineffectual attempt made by the Darien Company, seems to have been threatened, endeavours were made by other corporations to share their gains. One of the most curious of these was a scheme submitted by a Mr. James Armour, writer in Edinburgh, acting on behalf of the Royal Exchange Assurance Corporation of London. In advancing his scheme, Mr. Armour lays great stress on the benefit to be derived by the country from its acceptance; but it is evident from his tone that he had some strong personal interest in the success of his proposals. Seemingly the bank directors had turned a deaf ear to his charming, for he issued a print of 25 pages, with the object of forcing the scheme upon their attention, and enlisting the support of the proprietors. This pamphlet is entitled, "Proposals for making the Bank of Scotland more Useful and Profitable, and for raising the Value of the Land-Interest of North Britain; Edinburgh, 1722." It is dedicated to the Earl of Leven, Governor of the Bank, "to whom," says the author, "I'm perswaded, what is offered with a View to serve your COUNTRY and the BANK-COMPANY, will not be unacceptable." He then addresses the reader in the following words:—"Being commissioned by some very Honourable Gentlemen, as a COMMITTEE of the DIRECTORS of the ROYAL EXCHANGE ASSURANCE COMPANY at LONDON, to offer the following PROPOSALS to the GOVERNOR and COMPANY of the BANK of SCOTLAND, which, in my humble Opinion, are for the Interest, not only of the BANK-COMPANY, but also

of the whole NATION, I think myself obliged to submit THEM to the consideration of every one who will take the Trouble to examine 'EM, and has Resolution enough to judge for himself. 'Tis in vain to write for him, who, for Want of this Resolution, submits himself and his Concerns to another's Conduct, without enquiring into the Reasons of Things, such a one may save himself the Trouble of examining these Proposals, and leave it for a Task to his DIRECTOR." He then devotes sixteen pages, (in which a peculiar taste in printing is gratified to the full by the liberal use of large and small capitals, italics, and old English characters) to the statement and advocacy of his proposals. He opens with a reference to "The bad Effects of the *Scarcity of Money*, and a *sunk Credit*" then existing; and continues, "'Twill be needless for me to offer to set forth the Advantages of a Plenty of Money, and an extensive Credit, establish'd on a solid Foundation, these being obvious to every Man of common Understanding.

"Nor need I endeavour to prove what every one will readily admit, that Land is by much the surest Fund of Credit, by reason that it is not only capable of being so Ascertain'd, as that it mayn't be alienated, to the Disappointment of those who trust to it; but also that it is more like to retain its *Value*, than any other *Fund*." This is the basis of his argument; and he goes on to show that "The Fluctuation that lately happen'd of the Value of Land, . . . reckoning it after the Rate of *Twenty Years' Purchase*," had produced no real depreciation; "so that the Land-Credit did not suffer so much as a *Damp* even under that *Fluctuation*."

The author then proceeds to state his case, and it may be most pleasing to the reader to have it in his own

language in full. "Perhaps no Country in the World affords a better Opportunity for a *Land Credit*, than THIS of NORTH BRITAIN does, in Proportion to our Extent, not only by Reason that our **Registers** are sufficient to ascertain the *Property of Land*, but also that we have already the Privilege of a BANK, empower'd expressly to lend upon it.

"'Tis true, That, for a long Time past, this Bank hath been but very scanty in her **Loans** upon *Land*, or upon any other *Security;* but whatever may have been the Motives of this Conduct for Time past, it is reasonable to think, That was the BANK strengthened with a greater Quantity of *Cash*, than she hath hitherto been provided with, and for which no immediate *Demand* could be made upon her, she might safely issue *Notes* in *Loans* upon *Land* and other *proper Securities*, to a much greater *Amount* than she hath done at any Time heretofore; and that not only for the Advantage of the *Bank Proprietors*, but also of the whole *Nation.*

"To enable our BANK to this, a *Committee* of the *Directors* of the *Royal Exchange Assurance Company*, authoriz'd to that Effect, have empower'd me to PROPOSE, That this *Company* will furnish the BANK of *Scotland* with £20,000 *st. in specie;* upon this *Condition*, That after allowing the *Bank Proprietors* a *Dividend* of £2500 *Sterling per Annum* of free Profits, upon the £20,000 *Sterling* already paid in by them of their CAPITAL, the **Superplus Profits** arising from the Interest of the **Loans**, shall be equally divided betwixt the Two Companies.

* * * * * *

"The Committee of *Directors* of the aforsaid *Assurance Company*, being also perswaded that the **Settling** of an **Intercourse of Exchange** betwixt the Two Companies

would not only conduce to the Good of the *Companies*, but of the whole *Nation;* and considering that it will be for the Interest of that *Company* upon the Footing propos'd, that the Credit of our Bank be establish'd beyond Exception, they have also *instructed* me to offer it as their Opinion, That the *Assurance Company* shall honour and pay from Time to Time, **Bills of Exchange,** to be drawn by the Bank upon that Company to the *Amount* of £5000 *Sterling*, our Bank being only to answer that *Company's Draughts* to the Amount of what they shall have advanced and paid on the *Bank's* Bills for the Time. . . .

"Tho' 'tis evedint that *thus* the Business of *Exchange* is to be carried on with the *Assurance Company's Money*, yet 'tis propos'd, That the Bank shall have **Half the Profits** of what Exchange shall be got by these *Bills* to be drawn by both *Companies*, without risquing or advancing **One Farthing.**"

The deposit of £20,000 was to lie for a period of nineteen years, with option to the Assurance Company to demand repayment on twelve months' notice, but with no option to the bank to repay of their own accord. As the bank had been paying dividends of 20 per cent. on the first instalment of £10,000 of their capital, and of 5 per cent. on the second instalment of the same amount, the sum of free profits specified was to preserve that position. Further profits, including those to be derived from the use of the Assurance Company's money, were to be divided equally between the bank and the company. The exchange business was to be kept separate, one per cent. commission to be charged, drafts to be payable at sight, each party to pay their own expenses, and the profit to be divided equally.

Our author seems to have had doubts as to the acceptance of his scheme, for, towards the end of his pamphlet, he expresses himself thus gloomily and sarcastically:—"I know that very often the most useful *Proposals*" [he has long before this exhausted his stock of special types] "have been treated with the greatest Contempt; but a Man that has any Share of good Sense, must perceive how absurd this conduct is. If the World had been always averse to new Discoveries, we had been still as Barbarous as the most ignorant of our Ancestors" [a most profound depth surely], "and sure, one can't read the *Proposals* now offer'd with any Degree of Attention, but he must be ready to think, they will be *Accepted* with Pleasure, unless" [here comes the sting] "this is sufficient to *Reject* them that they are made *feasible*, and for the *publick Good*."

CHAPTER IV.

THE EQUIVALENT COMPANY.—THE ROYAL BANK OF SCOTLAND.

We now come to the period when the history of banking in Scotland begins to assume a general character. Hitherto the progress of one establishment has been all we have had to chronicle; but, from the time when, in 1727, the monopoly of the Bank of Scotland ceased, the number of banking houses rapidly increased. The record of dividends paid by the Bank of Scotland, to which we have already referred, bears patent evidence to the effects of the change. The first blow to the exclusive reign of the Old Bank (as it came to be called) was the incorporation of the Royal Bank of Scotland. The competition thus brought into play must have been of a very serious kind. The Bank of Scotland had the prestige of thirty-two years of remarkable prosperity; but its rival had the power of superior resources, and was backed by the special favour of the Crown. This latter circumstance was no direct loss to the Old Bank, as it had never experienced benefits of that description; but the disfavour which its Jacobite proclivities had entailed on it, was calculated to handicap it severely in the contest which now commenced. In 1727 the Bank of Scotland paid a dividend of 22½ per cent.; in the succeeding year—during which the Royal Bank carried on business—it paid 13⅓ per cent.; in 1729 the rate was only 3¾ per cent.; and during the succeeding fourteen years ending with 1743,

the average rate of dividend hardly exceeded 5 per cent. The contrast thus afforded with its previous experience speaks as graphically as any detailed account could (even were that to be had) of the seriously changed position of the Bank of Scotland, when it had to encounter the rivalry of other establishments. It did, indeed, in after years pay occasional exceptionally large dividends, and its increases of capital are understood to have been made largely from accumulated profits; but there is reason to believe that these arose mainly, if not entirely, from special gains on what would now be considered speculative transactions, but which in the olden days of banking were deemed an important and legitimate department of the banker's business. Its ordinary banking profits must have been very largely encroached upon by the operation of competition, and this effect was much aggravated by the violent and expensive efforts it made to maintain its right to monopolise banking business.

In order to describe the origin of the Royal Bank of Scotland, it is necessary to go back to the time of the union of the countries. By the fifteenth article of the Treaty of Union it was stipulated that, as the customs and excises to be levied in Scotland would be proportionately applicable to the debts of England, a sum of £398,085 10s., together with a proportion of the prospective increase of Scotch revenue to be realised in after years, should be paid by England, and devoted to the following purposes, viz.:—1st, To reimburse private persons for losses incurred in connection with the recoinage of the Scots currency; 2nd, to repay the capital of the African and Indian Company (which was then to be dissolved) with 5 per cent. interest per annum; 3rd, to pay the public debts of

Scotland (which seem to have consisted entirely of arrears of salaries, pay, etc., and not of borrowed money); 4th, the payment of £2000 per annum for seven years towards the encouragement of woollen manufactures; and 5th, the payment of a like sum in after years for the encouragement of the fisheries and other industries. A Board of Commissioners of the Equivalent, of whom the Board of Trustees for Manufactures appear to be the modern representatives, was appointed to superintend these arrangements. The lion's share went to the Darien Company, whose capital amounted to £232,884 5s. 0⅓d. It does not appear in what way the money was raised; but, as it is improbable that the English Exchequer had free funds in hand to meet the charge, it may be presumed either that loans were obtained from private parties, or that a part of the sum due (perhaps the Darien Company's capital) was allowed to lie as debt owing. The latter supposition seems the more probable one. It is stated that great delay occurred in the settlement of claims, the Government issuing debentures of £50 each to the creditors, but making no provision for their redemption or for payment of interest on them. However, an Act was passed in 1719, being the fifth year of the reign of George I., settling the Equivalent as matters then stood, by which the proprietors of the debts were incorporated into a company called the Equivalent Company, with a capital of £248,550 0s. 9½d. This sum consisted of £230,308 9s. 10⅔d., due to general creditors, and of £18,241 10s. 10⅔d., allowed to William Paterson as indemnification for his losses and services in connection with the Darien scheme. Whether or not Paterson lived to realise his good fortune is uncertain, as he died in the same year, but

it would undoubtedly form part of his estate. The Equivalent Company was allowed an annuity of £10,000, until redemption of the principal, as interest, and £600 a year for salaries and expenses. The company seems very early to have entertained the temptation to make further profits. The great prosperity of the Bank of Scotland dazzled them and others. Mr. Fleming states* "that in December, 1719, an overture of union was made to the Bank of Scotland by the Equivalent Proprietors; another in the following year by the Edinburgh Society;† and a third in 1721 by the Royal Exchange Assurance Corporation of London. But the directors resisted all their wiles. They said in substance, we have a very profitable concern, we have as much money as we require to sustain our credit, and when more is wanted, our own proprietors will find it." Although the Equivalent Company failed in this attempt, they did not give up thought of gratifying their desire to share in the profits of banking. When they commenced to agitate for an extension of their powers, so as to enable them to do banking business on their own account, we cannot say; but, on 31st May, 1727, a charter was granted to such of their number as chose to subscribe their stock into a new company, whereby they were incorporated as The Royal Bank of Scotland. That, and seven charters granted in after years, and an Act of Parliament passed in 1873, form the constitution of the Bank.

The original charter of the Royal Bank of Scotland states that "Our Sovereign Lord, considering, That by an Act of Parliament made and passed in the fifth year of His Majesty's reign, entitled, An Act for settling certain yearly

* "Scottish Banking: A Historical Sketch"—James Simpson Fleming. Edinburgh, 1877—p. 12.

† For the encouragement of Arts, Sciences, Manufactures, and Agriculture.

funds, payable out of the Revenues of Scotland, to satisfy public debts in Scotland, and other uses mentioned in the Treaty of Union; and to discharge the Equivalents claimed on behalf of Scotland, in terms of the same Treaty; and for obviating all future disputes, charges, and expences concerning these Equivalents," certain enactments had been made regarding the incorporation of the Equivalent Company, and "His Majesty did thereby for himself, his heirs, and successors, covenant, grant, and agree to and with the said Corporation or Body Politic, and their successors, that he, his heirs, and successors, should, from time to time, and at all times thereafter, upon the humble suit and request of the said Corporation or Body Politic, and their successors, give and grant unto them all such further and other powers, privileges, and authorities, matters, and things, for rendering more effectual their said grant, [of revenues and privileges], according to the true intent and meaning of the said Act, and of the said grant, which he could or might lawfully grant, . . . And considering that the said Corporation have, by their most humble application to His Majesty, requested, That he would be graciously pleased, by letters patent under the Great Seal of Scotland, to enable such of the Proprietors of the said Corporation as should subscribe their stock for that purpose, to have the power of Banking in Scotland only, with liberty to borrow and lend upon security there, . . . and that such power of Banking so established, would materially tend to the great benefit and advantage of that part of his kingdom; . . . . therefore His Majesty, in compliance with the said request, and by virtue of his prerogative royal, and of his especial grace, certain knowledge, and mere motion, and for the

benefit of his subjects in that part of his United Kingdoms, ordains a Charter to be made and passed under the Seal appointed by the Treaty of Union, in place of the great seal thereof, nominating" thirteen persons named, to receive subscriptions of stock, on or before 29th Sept., 1727, and constituting the subscribers "one Body Politic and Corporate of themselves, in deed and name, by the name of The Royal Bank of Scotland," and to have perpetual succession, &c. Among the specified powers granted are the "lending of money as they shall see fit, at any interest not exceeding lawful interest, on real or personal security, and particularly on pledges of any kind whatsoever, of any goods, wares, merchandises, or other effects whatsoever, and that the said company may keep the money or cash of any person or persons, and may borrow, owe, or take up in Scotland, on their bills or notes payable on demand, any sum or sums of money whatsoever." The Company was prohibited from trading in buying or selling wares of any sort, allowance being made to deal in bills of exchange, bullion, &c., and to dispose of goods lodged in security for advances, unredeemed lands purchased, &c. Voluminous regulations follow, which it is unnecessary to specify. Power is given to the General Courts of Proprietors to make calls, not exceeding 50 per cent. in all, over and above the subscribed stock, "as to the majority of the Members in their General Courts shall seem proper, and so as not above ten pounds upon every hundred pounds of stock be called at one time." This point is specially interesting from the fact that it has, in a recent able treatise on Scottish Banking,* been construed to imply direct liability of the proprietors for a further sum

* "Our Scotch Banks," Wm. Mitchell, S.S.C., 3rd edition, 1879, page 81.

than the now fully paid-up capital. The question is one which might afford good opportunity for legal fencing in a Court of Law; but there are two weighty objections to the theory which Mr. Mitchell has put forward. The first is that the enactment appears to have been a purely optional one, at the discretion of the bank itself, being inserted in the charter because, the capital consisting entirely of stock of the Equivalent Company, the bank would, without such power, have been destitute of ready-money other than what might be supplied by customers. The second objection is, that as the provision was not renewed in any charter subsequent to the first—most of the charters being complete in themselves, and not mere additions, but absolute renewals of privileges on slightly different bases—it may be held to have been abrogated. But, even if it be held that it was not abrogated, it could only apply to that portion of the capital stock which was created by the charter in which the provision was inserted. As that original capital has, in all probability, changed hands, been sub-divided, and intermixed with later created portions of the capital, the attachment of liability would now be practically impossible. In any case, the total extent of the liability would only be about £55,000, subject to deduction of certain sums which had been called in exercise of the privilege.

We have treated thus fully—perhaps tiresomely so—of the charter of the Royal Bank, because of its unique character. There are three other chartered banks (excepting the Bank of Scotland, which, although popularly called "chartered," is strictly a Parliamentary Corporation), but none of their charters have the same historical value or antiquarian interest, although they may be more readable,

on account of the smaller amount of verbosity and pedantic iteration they display. As a specimen of contemporaneous legal composition, it is somewhat of a curiosity, both from its redundant modes of expression and the simple clearness of its language. And above all, it is a most important element in the history of Scottish banking.

CHAPTER V.

COMPETITION—PRIVATE BANKING—JOHN COUTTS & CO.

It was not without a severe struggle that the Bank of Scotland submitted to the encroachment on its hitherto undisturbed monopoly by the Royal Bank. Most strenuous efforts were made to prevent the grant of a charter, influence being made with persons of position in London, and, according to one authority, even bribery being resorted to. It is much to be regretted that the early history of Scottish banking should not have found efficient contemporaneous chroniclers. As it is, we have the merest glimpses into the progress of the banks even up to comparatively recent times. Were it not for Sir William Forbes' most interesting and valuable memoir, which the well-known firm of W. & R. Chambers brought to light twenty years ago, we would have only a skeleton to study; and as it is, that record is mainly confined to the development of one bank—and that a private establishment—and only reaches back to within a few years of the period we are dealing with. There are two small works, however, of which a few copies are still extant, one of which was in the library of the Writers to the Signet until recently, when it was stated to have been "lost" (a painful commentary on modern librarianship), and from which Mr. Fleming gives some interesting extracts and details of this period. They were both published in 1728. The first is "An Historical Account of the Establishment, Progress, and State of the Bank of Scotland, and of the

several attempts that have been made against it, and the several interruptions and inconveniences which the Company has encountered." The second is a "Letter containing Remarks on the Historical Account of the Old Bank." These are, so far as we know, the only publications by contemporary writers which treat specifically of this all-important crisis in our banking history, and they deserve to be better known than they are at present.

All the efforts of the Old Bank to frustrate the advent of its rival were of no avail. On the 31st May, 1727, an incorporating charter was granted to the petitioning Equivalent Proprietors, and within the prescribed time stock to the amount of £111,347 19s. 10$\frac{5}{12}$d. sterling was transferred as the capital of the new bank. As we saw in our last chapter, the charter gave power to the proprietors to assess the fully-paid stock to an extent not exceeding 50 per cent. Without this power the company would have been placed in an awkward predicament, as, although they had a paid-up capital greatly in excess of that of the Bank of Scotland, it was unavailable for banking purposes, being entirely in the form of government debt. In order to enable them to proceed to business, they made calls in December, 1727, and February, 1728, amounting together to 20 per cent. on the capital. At the former of these dates they appear to have opened their office, their first notes being dated 8th December, 1727. A remittance of £20,000 in connection with the provisions of the Treaty of Union anent the encouragement of manufactures, to which we have already referred, seems to have been the occasion of special strife between the Banks. As descriptive of the struggle, we cannot do better than quote Mr. Fleming's words:—

"Then came the tug of war. The Old Bank and the New are now face to face, each with its hot partisans eager for the fray. I fear not a few hard blows were struck in those early months of 1728. And yet, what monopolist ever patiently submitted to the surrender of his privilege, or saw either reason or public advantage in its sacrifice? And do we ever see, even in our enlightened days, the new institution welcomed into cordial brotherhood with the old, until it has not merely deserved but commanded respect? So it was with our two banks. The Old was jealous and resentful; the New was aggressive and defiant. Peace was hopeless until they had tried each other's strength. The struggle was short and sharp. The New Bank established its footing, and the Old had for a time to succumb under the pressure of its rival's demands. The warfare culminated in the use by the New Bank of the legal engines of horning, inhibition, and arrestment, in the course of which Andrew Cochran, the Lord Provost of Glasgow, of whom we shall hear more, appeared on the stage. The Court of Session evidently thought that legal diligence was being run rather hard, and stretched a point. The Royal Bank, writhing under a supposed denial of justice, was more forcible than polite; for we find that the Lords, 'taking notice that the terms of a petition were indecent and disrespectful to the Court, would not allow it to be entered on the record.' Then followed an appeal to the House of Lords, who, on 9th May, 1729, reversed all the decisions of the Court of Session, and awarded to the Royal Bank and Cochran the costs, which then formed the only question between the litigants, the sums sued for having been previously paid."

It was long before harmonious relations were estab-

lished between the rivals, almost the first thing to cause them to coalesce being the prospect of a third competitor entering the field nineteen years later. But gradually a more creditable style of rivalry took the place of the deadly quarrel described. It was through the medium of their note issues that the banks harassed each other; and as the Old Bank's issue was greater than that of the Royal Bank, the latter was enabled to operate with more effect than the former. Arnot, in his History of Edinburgh (1816, p. 411), says—"Agreeably to the envious policy so frequent among commercial companies and states, when the Royal Bank was created, that company purchased up all the notes of the Bank of Scotland that they could lay hands on, and made such a run upon this bank as reduced them to considerable difficulties. To avoid such distresses for the future, the Bank of Scotland, on the 9th of November, 1730, began to issue £5 notes payable on demand, or £5 2s. 6d. six months after their being presented for payment, in the option of the bank. On the 12th December, 1732, they began to issue £1 notes with a similar clause." Thus was initiated the pernicious practice of inserting optional clauses in bank notes; but, as we have already shown, the system of deferring payment and allowing interest to accrue had been commenced long before. This proceeding must have been effectual for the purpose in view; but, the example being generally followed in after years by other banking companies, it led to great abuses, which seriously reflect on the character of Scottish banking, until the year 1765, when a legislative prohibition was enacted against such optional clauses, as well as against notes for a smaller sum than £1. The custom greatly facilitated those excessive note issues by

persons of insufficient means which, in the middle of last century, weakened public confidence in banks, and endangered the continuance of the right of issue. A writer in 1787, after describing the erection of the two oldest banks, says—"Other banking companies quickly followed, both in Edinburgh and other towns in Scotland, until at last they became a public nuisance, by issuing notes for the most trifling sums, at the same time that they were almost entirely destitute of capital for carrying on the business of banking, or any other." One can sympathise with the harassed directors of the Bank of Scotland seeking to avert suspension of payments, but it must be regretted that they and their successors should have so grievously misapprehended the essential principles of note issuing. Even in our own times, when the development of financial economy has to a large extent lessened the utility of note issues, these are of great public service, notwithstanding the fox-and-the-grapes style of argument of non-issuing bankers. But it is essential to their character as efficient substitutes for money, that they should be convertible into specie on demand. Whatever tends to counteract that condition is unsound in principle.

We may here appropriately notice the origin of the now well-known and distinctive feature of Scottish banking called cash-credits. The name of the author of the system is unknown, but the Royal Bank has the merit of inaugurating it. The directors' minute is dated, we are informed, 12th March, 1728, and on 31st May following, the first cash-credit was granted to William Hog, Jun., merchant in Edinburgh, who afterwards became a private banker on his own account. The universal adoption of the system in after years was

accompanied by material benefits to the nation. In a poor but energetic country, such as Scotland was in those days, there are always many industrious and intelligent people who, from want of capital, are unable to exercise their powers beyond the limits of every-day requirements. If they are enabled, by the operation of credit, to increase their business, their profits are proportionally increased, and they are supplied with the means of repaying their creditors, and eventually accumulating private wealth. At the same time, the wealth of the nation is increased by the greater productiveness of the national industry. Thus it was that Scotland advanced through the instrumentality of its banking system, and in that system the practice of lending money without tangible security, in reliance on the respectability of the applicant, guaranteed by two or three responsible persons, has been, perhaps, the most potent element. The superior affluence of the general public now-a-days renders the cash-credit system of less importance in comparison with other departments of banking than formerly; but even yet, especially in small centres of population, its beneficial effects are largely operative.

Following the good example shown by the Royal Bank, the Bank of Scotland soon began to show the advantages of competition, by courting the favour of the public by increased banking facilities. In 1729 they adopted the cash-credit system, and in the same year they commenced to allow interest at five per cent. per annum on deposits "on the Treasurer's bond." These were presumably the precursors of the more modern "deposit receipts." In 1730, as we have seen, they took a decidedly retrograde movement; but in 1731 they, with

praiseworthy boldness, attempted, in repetition of the essay of 1696, to establish a branch system. The places selected were Glasgow, Aberdeen, and Dundee, being the same as formerly, except that Montrose was not again honoured with notice. The times, however, were not yet ripe. Two years later the branches were discontinued. In 1731 another change was made in the deposit arrangements, by the introduction of the system of fixed periods, interest being allowed at four per cent. for twelve months' notice, and at three per cent. per annum for six months' notice.

At this point it is proper to allude to the origin of the system of private banking, which forms a prominent feature in Scottish financial history during the latter half of last century and the first quarter of the present century. It is probable that the first private banking firm in Scotland was the house of John Coutts & Co., Edinburgh. Sir William Forbes* tells us that the founder was Patrick Coutts, a native of Montrose, who was in business as a merchant in Edinburgh in 1696, and who died in 1704. It is evident, however, from subsequent statements in Sir William's narrative, that John Coutts, the eldest son of Patrick Coutts, must be regarded as the actual founder of the house. John Coutts was born 28th July, 1699, and was therefore only five years old when his father died. The latter's business is presumed to have "been in a great degree discontinued by himself before his death, and wound up by the tutors he left to his children." Of the early years of John Coutts' life but few particulars have been preserved. In 1723 he was engaged in mercantile business in Edinburgh, but whether of a

* "Memoirs of a Banking-House." Edinburgh, 1859.

continuous or intermittent nature is not recorded. It is evident, however, that previous to 1730 he must have been a man of considerable importance, as in that year "he entered the Town Council of Edinburgh [a much more exclusive body then than now] as first merchant councillor." During two partnerships previous to 1744, the firm was John Coutts & Co., and subsequently it became Coutts & Trotter. Again, in 1749, it was changed to Coutts, Son & Trotter, when, we are informed, the capital was £4000, a much more considerable sum in those days than it would be deemed now. John Coutts died in 1750; and when, a few years later, Mr. Trotter retired from the business, the firm became Coutts Brothers & Co. There is no reason to suppose that, during their earlier years, the firm were carrying on banking business proper; but, in addition to their ordinary business of "dealing in corn, buying and selling goods on commission," they were also engaged—as was usual with mercantile firms of credit in those days when the domains of commerce and finance were not distinguished so definitely as now—in "the negotiation of bills of exchange on London, Holland, France, Italy, Spain, and Portugal." Sir William Forbes continues—"The negotiation of bills of exchange formed at that period a considerable part of the business of Edinburgh; for there were then no country banks, and consequently the bills for the exports and imports of Perth, Dundee, Montrose, Aberdeen, and other trading towns in Scotland, with Holland, France, and other countries, were negotiated in Edinburgh." The firm's exchange business gradually developed into banking, and instead of being an adjunct of the mercantile department, that became subordinate to it. Corn and other speculations continued,

however, to be indulged in until 1761, when Sir William Forbes—then the senior partner—abolished the practice. The orignal designation of John Coutts & Co. was renewed in 1763. After the death of John Coutts his sons opened a mercantile house in London, which developed into the banking firm of Coutts & Co. The house of Herries, Farquhar & Co. was also founded by members of the family. To the senior partner of the latter firm belongs the credit of the invention of circular notes (a species of letter of credit generally considered of recent origin), for which he successfully established a regular system of correspondence with the principal cities of the continent of Europe. The outbreak of war seems to have interrupted the further prosecution of a scheme which, in later times, has been resumed on an extensive scale. Its present success, however, is more conspicuous than its profitableness.

Although, like other private bankers of their day, John Coutts & Co. for long engaged in operations dangerously inconsistent with legitimate banking, the business appears always to have been managed with considerable prudence, so that times of trouble were met with sufficient resources, and experience gained was always carefully profited by. In consequence of a quarrel with Messrs. Coutts & Co., of London, it was deemed advisable to drop the designation of John Coutts & Co. On 1st January, 1773, therefore, it was changed to Sir William Forbes, James Hunter & Co., and by that name the house continued to be carried on during, and for some years subsequent to the termination of, its independent career. Under the direction of Sir William Forbes the firm rose steadily to a high position of credit and influence. Among Scotch private banking

firms Sir William Forbes, James Hunter & Co. occupied undoubtedly the highest place. The others were in too many cases habitually addicted to those speculative transactions, the renunciation of which secured the permanence of Sir William's business. The firm is gone, having been merged in the Union Bank of Scotland in 1843, after five years of practical amalgamation with the Glasgow Union Bank, but the business still exists; and in virtue of this connection, the Union Bank can claim to rank as the third oldest bank in Scotland, while its business succession probably reaches back to the pre-banking era.

CHAPTER VI.

RAMSAYS, BONARS & CO.—REBELLION OF 1745—THE BRITISH LINEN COMPANY.

CONTINUING our reference to private bankers, the next firm which falls to be treated of is that so well known in the early years of the present century as Ramsays, Bonars & Co. The business dates from the year 1738, and the founder was James Mansfield, who is designated as a "little draper;" but whether the adjective had a personal or a business signification is not stated. One of the partners, John Mansfield, died in September, 1760, and, presumably in consequence of that event, in 1761 the firm appears as Mansfield, Hunter & Co. It was subsequently changed to Mansfield, Ramsay & Co., and so remained until in 1807 it became Ramsays, Bonars & Co. This continued as the style until the dissolution of the firm in 1837—an event brought about partly by losses in speculations, and partly by the growing public disfavour with which private banks were regarded. The partners, however, continued in the enjoyment of considerable wealth. In the twelve years from 1826 to 1838 the number of private firms was largely reduced, seven having merged in joint-stock companies, six having failed, and two having voluntarily given up business. Only six private banks survived this period; and all of them, except Alex. Allan & Co. (who were extant in 1855) disappeared within a few years thereafter —two through failure, and three by amalgamation. Joint-stock banks were springing up all over the land, and

the older banks were pushing out their branches. Private banks were looked on — not without reason — with increasing suspicion; and their joint-stock rivals—many of whom were hardly more deserving of confidence—enjoyed in inverse ratio the esteem of the public. From 1825 to 1840 a fever, or rather mania, raged in Scotland regarding the profitableness of joint-stock banking; and during that time eighteen new establishments were formed, of which number only six now exist. This was, of course, only a manifestation of the general joint-stock epidemic rampant in the United Kingdom at the time. Much reckless competition and general mismanagement characterised the direction of these new companies; and although only two—the Western and the City—reached the point of stopping payment, several of those which were absorbed by stronger offices have been generally considered as in an insolvent condition when they transferred their businesses.

It does not appear whether or not the two firms who stand out as the pioneers of private banking in Scotland had any rivals during their early years. It is possible that one or two houses, such as the Fairholmes and the Cumings, were not much if at all behind them; but on this point there is no certainty. A dozen or more firms were in business fifteen years later, who all disappeared ere the close of the century, for the most part in the memorable year 1772. With very few exceptions these firms were merchants and commission agents as well as bankers—a combination of business which characterised Scottish private banking more or less throughout its career, and which proved very destructive to it. They were, moreover, not exactly in the position of competing with the joint-stock banks. While transacting all the operations of

bankers, they acted as a sort of medium between the latter and the public. On the one hand, they were always customers of one or other of the public banks, whose notes they issued (it was not until a later period that some firms issued their own notes), and whose funds they borrowed to lend out on their own responsibility. We shall find that this system resulted in a very grave danger; but it continued uninterruptedly for the greater part of a century.

Notwithstanding the efforts of the two banking corporations and their private coadjutors and rivals, the trade and manufactures of Scotland do not seem to have thriven to any considerable extent during the first half of the eighteenth century. It is probable that the people were generally more comfortable than they had been previously, as the comparative serenity of political affairs permitted them to work to more advantage than they had been able to do at any former time. But they were still very poor, and far behind their English neighbours in the arts of civilisation. Even the Irish appear to have been ahead of them in some branches of manufacture. A contemporary writer even goes the length of stating, in what it may be hoped is somewhat exaggerated language, that "luxury, corruption, avarice, and ambition are as rampant as ever. Our taxes are as high, and our debts, I am afraid, not much diminished. Our trade and manufactures continue in the same languishing condition . . . These causes have spread a face of poverty over the whole nation, especially the distant manufacturing ones, which hath excited multitudes of poor wretches to several acts of violence, notwithstanding our army, as well as the Riot and Black Acts." The linen trade, however,

received much attention, and seemed only to require the application of capital to develop into a national industry of a remunerative nature. An Englishman, writing in 1739, and subscribing himself "A hearty well-wisher to Scotland," alludes to a satisfactory increase and improvement in that branch of manufacture, and states that "the increase and *improvement* lately made in the linen manufacture of *Scotland*, has afforded the most solid satisfaction to every friend of the interest of *Great Britain*. And the quantities of *fine* cloth that have been sent hither of late hath very much altered the judgment of people here, who, from the large parcels of *slight goods* you have hitherto sent us, were apt to conclude you incapable of furnishing linen of any considerable fineness." He goes on to recommend the establishment of a society in Edinburgh for the prosecution and encouragement of the trade. As we shall see, this idea was realised a few years later, though on somewhat different lines from those suggested.

Meanwhile the rebellion of 1745 broke out, and thoughts of mercantile and financial progress gave place to the instincts of safety. All the records seem to show that the sympathies of the Lowland middle class and the townspeople generally were on the side of the reigning power. The little progress they had made was owing to the security and peace they had enjoyed at home (the almost continual foreign wars were borne as a chronic evil immeasurably preferable to the constant unrest at home from which the nation formerly suffered), so they were little disposed to rejoice at the advent of their legitimate sovereign, although his efforts were aimed at their unloved English rulers. Accordingly, we find that

the approach of the rebels upon Edinburgh was regarded with dread by the citizens; and the banks and some private persons, as well as the Government departments, removed their effects into the Castle for safety. This was about the 14th September. Three days later the Pretender's army took possession of the city. In a contemporary account, it is recorded that on the 25th September "a proclamation was issued, in which, upon a narrative that great inconveniences had attended the removal of the two banks into the Castle, and from an opinion industriously spread, as if the Chevalier intended to seize on money wherever it was to be found; he declared that the money lodged in the banks should be entirely sure under his protection, and free from all contribution to be exacted by him in any time coming, so that the banks might return to their former business with safety; and that he himself should contribute so far in the re-establishment o publick credit, as to receive and issue bank-notes in payments." Notwithstanding this polite, but by no means disinterested, manifesto, the bank directors continued to regard the security of stone walls and cannon as more reliable than the words of a prince. They were not left undisturbed, however, for, finding invitations and assurances of no avail, Prince Charles Edward sent his officers to the bank managers, demanding payment of a considerable amount of their notes in specie. Many interviews took place, and eventually it was agreed that, if safe access could be got to the castle, payment would be made. To understand the position aright, it must be remembered that the Prince's power extended from Holyrood House to the city end of the castle esplanade, and intermittent conflict raged be-

tween that point and the fortress. A truce having been arranged between the Government forces and the rebels, the bank managers, with their assistants, advanced under a white flag, and were admitted to the castle. Having counted out the necessary amount of coin, they proceeded to utilise the opportunity by destroying notes which they had deposited with the coin; but it would seem that the authorities of the castle were anxious to get rid of them, and so hastened them that they had time only to tear the notes in pieces instead of burning them. Perhaps the Government commanders disliked this wholesale destruction of negotiable securities, which, at some turn of Fortune's wheel, might prove useful to them. These visits were repeated on several occasions, as the rebels were doubtless anxious to convert the Scotch notes they possessed into a more marketable commodity, in prospect of their advance into England.

The battle of Prestonpans took place on the 21st September, five days after the prince entered Edinburgh; and on the 31st October he left it with his army for the south. By the middle of November, the law officers and other Government authorities had returned to the city from Berwick, where they had sought safety, and the banks resumed business. It was not until February of the succeeding year, however, that affairs were so far settled as to allow of the full resumption of their operations by the banks.

On the 16th April, 1746, the rebellion practically ended with the battle of Culloden; and soon thereafter we find that the suspended proceedings in connection with the linen trade were resumed. This manufacture had for long been the most important in Scotland; but it would seem that

at the time of the formation of the Board of Trustees for Manufactures (1727) it had very largely fallen off. By a system of premiums and bounties, they endeavoured to encourage it in a similar way to that pursued in Ireland, although not at a proportionate cost to the state. Whether owing to this nursing, or to the more satisfactory process of spontaneous energy on the part of the people, a gradual improvement manifested itself. During the five years, 1727-32, the value of linen cloth stamped for sale within Scotland is stated to have amounted to £662,938; and so rapidly did the trade increase that, in the five years 1746-51, it had risen to £1,607,680. In this latter period, several manufacturing companies were formed for the prosecution of trades hardly attempted previously. Among these were rope and sailcloth manufactories, iron works, gold and silver lace companies, sugar refineries, herring and whale fisheries. We are, however, principally concerned with the establishment of a corporation for the encouragement of the linen trade, but which has for fully a hundred years been better, if not exclusively, known as a bank.

The British Linen Company was incorporated by charter of George II., dated 5th July, 1746. The authorised capital was £100,000, but of this only £50,000 was offered for subscription at the outset. No decisive movement appears to have been made until 17th September, when a general court of the proprietors (presumably few in number) was held to settle "the method of proceedings at elections, the forms of oaths, and several other rules and bye-laws." It was agreed "that a seal be made for the company in the figure of a Pallas," and that the subscription books for the capital should be kept open at Edinburgh

and London until £50,000 were subscribed for. Of these subscriptions 10 per cent. was to be paid by 1st December, and the court of directors was authorised to borrow money "in case of need," on bills or bonds under the company's seal, and they were required to meet at least once a week. The first managers appointed were Ebenezer Macculloh and William Tod, merchants in Edinburgh. In the warehouse there were to be "a book-keeper and an accomptant, two staplers to give out the yarn and receive the cloth, and a porter." These four officers were endowed with "salaries not exceeding £150 in whole;" and they were prohibited from receiving gratuities or keeping public-houses or pawn-shops. In the disposal of profits a more liberal system was adopted, and it was evident that the projectors calculated on a very remunerative business from the outset. The proprietors were to get 5 per cent. per annum on their paid-up stock preferentially. The managers were to get 2 per cent., and the directors ½ per cent., on the sales, and losses were to be provided for out of the remainder.* To our modern ideas these arrangements savour of reckoning without the host; but doubtless the company knew very well what they were about. They gradually engrafted banking on to their original business. In 1752 they were issuing their own notes, and they doubtless engaged in general financial business from an early period; but, although their name occurs in the earliest lists of Edinburgh bankers, their banking business seems to have been (until a comparatively late period) of a semi-private nature, and to have resembled that of contemporary private bankers. It was not until 19th March, 1849, when they obtained a new

* Report of meeting, *Scots Magazine*, 1746, p. 624.

charter, that they were formally recognised as a banking corporation.

Ten years later than Messrs. Mansfield & Co., another important private banking house arose. It was that of Messrs. Thomas Kinnear & Sons, who first began their business as bankers in 1748. The house maintained a good position during all the private banking era, but signs of weakness seem to have shown themselves towards the close of their career. They passed through the fiery trial of the Douglas, Heron & Co. period, when almost all the private banks in Edinburgh were swept away; but they could not withstand the current of the public mind towards joint-stock banking, which became strongly developed in the first quarter of the present century. In 1831 they were joined by the much younger firm of Donald Smith & Co., as Kinnears, Smith & Co.; but the amalgamation was of little avail, for on the 24th July, 1834, the firm closed their doors. They did not issue their own notes, but used those of the Bank of Scotland.

About this period forgeries of bank notes appear to have been frequent. The punishment inflicted was usually transportation to the plantations; but occasionally the more summary and effective preventive of hanging was inflicted. In the former case, if the convict returned to the country, he was to be whipped periodically until re-transported. These forgeries seem, however, to have been poorly executed and readily detected.

CHAPTER VII.

DEVELOPMENT OF BANKING IN GLASGOW AND THE PROVINCES.

Up to the time when Thomas Kinnear & Sons commenced business, the banking business of Scotland was entirely confined to Edinburgh. It was not until the succeeding year that the first attempt at provincial banking was made. Owing to the jealous and vindictive policy of the two public banks, it proved unsuccessful. The first country bank was erected in Aberdeen, by Messrs. Livingston, Mowat, Bremner and Dingwall, as the Banking Company at Aberdeen. This movement was well timed, and was calculated to be of great service to the important district of Aberdeenshire. The Scottish Jacobite troubles were practically settled for ever, by the discountenance shown to the Stuarts subsequently to the Treaty of Aix-la-Chapelle; and the conclusion of the Austrian war of succession gave a period of peace to the harassed European powers. This satisfactory state of matters permitted attention to be devoted to the encouragement of British industry, and the country ceased to be drained of its blood and treasure. Circumstances looked favourable for the extension to the provinces of Scotland of those banking facilities which were so beneficial to the metropolis. But the wisdom of the ever-intelligent and enterprising Aberdonians was destined, in this matter, to be thwarted at the outset by the narrow monopolistic views of the financial magnates of the capital. It does not appear, however,

that the Edinburgh banks paid much attention to the Aberdeen bankers, until they showed symptoms of proving formidable rivals in the matter of circulation of notes, and until a similar danger manifested itself in Glasgow. The Bank of Scotland and the Royal Bank then established an agent in Aberdeen, to encourage the circulation of their own notes, and to collect those of the new company, and to get them retired for specie or Edinburgh notes. The scarcity of coin in the country proved the ruin of the Aberdeen Company. They could not long sustain the drain on their resources, and accordingly towards the close of 1753—after little more than four years' existence—they gave public notice of the dissolution of their partnership and their cessation of the issue of notes.

The biased author of the narrative of their downfall attributes their inability to withstand the assault of the Edinburgh banks to their own inherent want of strength, without reflecting that the Bank of Scotland itself had more than once given way from want of specie in its coffers. It may be that the Aberdeen adventurers were injudicious in the extent to which they pushed their issues in proportion to their metallic reserves; but the fierce attack of the comparatively wealthy, and wholly unsympathetic, Edinburgh banks was of itself sufficient to put a stop to their operations. As it is, there is no assertion that they at any time failed to meet demands made on them, and their retirement from business was entirely voluntary. Elsewhere, it is true, there is record of an application to the Clerks of Session to register a protest of the Aberdeen bankers' notes, in order that summary diligence might pass on them, which was referred to the Judges, and unanimously refused as incompetent; but it does not seem that

whatever delay may have occurred through the unworthy tactics of the public banks, that the partners' credit was at any time doubted. A disinterested judgment must, in the absence of further evidence, ascribe the failure of this, the earliest attempt to establish that magnificent system of country banking which has proved one of the distinguishing features of Scottish banking, to the prejudice and short-sighted self-interest of the two oldest banks.

But a greater danger in the matter of competition was engrossing the attention of the Edinburgh banks; and, flushed with their success in the north, they soon bent their energies to the suppression of formidable rivals who had arisen in the western capital. Up to the year 1749, the merchants of Glasgow were entirely dependent on the Edinburgh banks for banking accommodation; and, notwithstanding the competition between the two banks, cash credits were very sparingly granted, and capriciously withdrawn. The Glasgow merchants favoured the new in preference to the old bank (they were always so distinguished in those days), and this had favoured the circulation of the notes of the former. The increasing business of the city made this dependence inconvenient; and the merchants made a proposal to the two banks to establish an office in Glasgow for the transaction of their local business. Whether from mutual jealousy, or from a mistake in judgment as to the effect of such action, this opportunity of preserving their monopoly of the banking business of Glasgow was, happily for the prosperity of that city, lost to the Edinburgh banks. In order, however, to improve its position among the Glasgow merchants, the Bank of Scotland, in the same year that the bank at Aberdeen was started, promoted the establishment of a banking company

in Glasgow, under the designation of the Ship Bank, the firm being Dunlop, Houston & Co. Not to have the wind taken out of their sails, the Royal Bank next year got up the Glasgow Arms Bank of Cochran, Murdoch & Co. Each of the new companies got cash credits from their respective patrons. Self-confident in the superiority of their resources, and over-estimating the dependence of the western traders, who themselves appear to have been unconscious of their own powers, the Edinburgh banks regarded these new bankers merely as agencies for the conservation and encouragement of their business. With true Glasgow precocity, however, the banking chickens had hardly chipped the shell ere they began to forage on their own account. At last, realizing the gravity of the case, the two old banks united their efforts to crush their *protegés* ere years should give them strength. They withdrew the credits granted, and ordered the two firms to give up their business. But the Glasgow merchants were not to be thus browbeaten; and, while desirous to maintain amicable relationships, declined to do as they were told. In this action they were well supported by the public spirit of the inhabitants. The Edinburgh banks then commenced a series of those persecutions with which they had formerly afflicted each other and the Aberdeen company. For this purpose they employed Mr. Archibald Trotter, once a partner in the house of John Coutts & Co., to collect notes of the new firms and present them for payment in considerable sums. They had, however, heavy metal to deal with. The Glasgow bankers were not slow to adopt the petty tricks for delaying payment which had been taught them by their oppressors. It would even seem that, in several cases of delayed payment of notes

which occurred, they acted not so much from want of cash, as with the object of tantalising their quondam patrons. The strife drifted into litigation, and was not closed for several years; but the independence of the new banks was secured. The older of the two—the Ship Bank—maintained an active career until 1838, when it merged in the Glasgow Union Bank, having, in the year previous, amalgamated with the Glasgow Banking Company, as the Glasgow and Ship Bank. The Glasgow Arms Bank was not so fortunate, for it got into difficulties, and was sequestrated in 1793. The partners eventually paid their liabilities in full, without interest.

About this time private banking seems to have advanced apace in Edinburgh. Between 1750 and 1760 some ten private firms appear to have come into existence; so that with those previously in business, there appear to have been about twenty private banks in operation at the last-named date. The most important of those not already referred to were the houses of Adam and Thomas Fairholme, Wm. Cuming & Sons, Wm. Alexander & Sons, and Seton & Houston. Of these, all but the Cumings, and perhaps Seton & Houston, engaged in corn and other commission businesses as well as banking—a combination which proved their ruin some years later. It was about this time (1761) that, as Sir Wm. Forbes tells us, his firm gave up speculation and devoted themselves exclusively to banking, to which action he rightly attributes their further success. Other firms which arose in the decade, 1750 to 1760, or immediately previous to it, were William Hogg & Son, in whose house the afterwards eminent Dr. Robert Hamilton spent some of his earlier years; William Alexander & Sons, Johnstone, Smith & Co., Fordyce,

Malcolm & Co., Arbuthnot & Guthrie, Gibson & Hogg, Scott, Moncrieffe & Ferguson, and Andrew Sinclair & Co. Of individual bankers, George Chalmers, Samuel Foggo, John Fyffe, and William Hogg, jun., probably complete the list. Most of these had passed away by 1772. They were mainly mercantile houses, but dealt in exchange business, and banking generally, as occasion offered.

From a curious paper published at Edinburgh in 1778, entitled "Bank Disputes," reference is made to a "convulsion of credit 1761 and odd years in which the Royal Bank took no part." What is meant is not exactly apparent; for, although the seven years' war (1756-63) disturbed the circulation of specie in Scotland, we are unaware of any special crisis which occurred in consequence beyond the action of the banks (including the Royal) in December 1761, in reducing cash accounts by one-fourth. This proceeding seems to have been absolutely necessary, in order to replenish the reserves of coin. A contemporary account states that "exchange has risen so high that bills on London, at a short date, sell at Edinburgh at four and a half and even five per cent., a rate considerably higher than exchange has amounted to for forty years." In January 1762, the Edinburgh banks made a further restriction on holders of cash credits, prohibiting them from paying in and drawing out money on the same day. This provision appears to have been aimed at the private bankers, whose practice was to draw out a supply of cash every morning, and re-deposit the balance on hand in the afternoon. The prohibition must have been afterwards withdrawn, for the practice continued till the close of private banking. In March following, the banks took a further step to strengthen their position, for we find them

advertising as follows:—"Both the banks at Edinburgh, established by Parliamentary authority, hereby give notice, that they have resolved to receive in money at their respective offices, in the way of borrowing, on the treasurer or cashier's receipts, for six months certain, or longer, as shall be agreed on, at the rate of five per cent. per annum; and at four per cent. per annum repayable on demand, on cash accounts, free of all charges. That this measure is taken to avoid the inconvenience of a sudden call upon their debtors, and towards the support of public credit, trade, and manufactures, which have always been the care of the banks." At this time the notes of the Bank of Scotland bore the well-known optional clause; but those of the Royal Bank were payable on demand. The exchange on London had now fallen considerably, and by April the rate was only $\frac{3}{4}$ per cent.; and so the crisis passed away. Next year the banks gave notice that they had resolved to repay the deposits taken at 5 per cent.

In passing, we may refer to a few points worthy of notice which occurred during the period we have just gone over. By the year 1750 the metallic currency of Scotland had become almost entirely replaced by the notes of the public banks. The country was always deficient in coin, so the circulating medium supplied by the banks was readily appreciated; and, as there was an almost incessant drain of specie to England, the tendency of paper to drive out coin was accelerated. In 1752 the Bank of Scotland and the Royal Bank commenced the system of note exchanges which has (with modifications) continued to the present time, and to which must be greatly attributed the high character for convertibility always attaching to

the issues of the banks in Scotland. Guinea notes were first issued by the Royal Bank in 1758, and bore the date 24th March.

The success of the two Glasgow banks does not seem to have furthered the development of country banking for some time, as we find that no other bankers entered the field out of Edinburgh up till 1761, a period of eleven years from the establishment of the Glasgow Arms Banks. In that year, however, the Thistle Bank Company of Sir Walter Maxwell of Pollock, Bart., James Ritchie & Co. commenced business. This firm merged in the Glasgow Union Bank in 1836, after a prosperous career of seventy-five years. David Watson, whose firm became afterwards James & Robert Watson, also founded a private banking house in Glasgow about this time; but the business appears to have been more an agency for other banks than an independent one. Dundee was the next town to take up the trade of banking. In 1763 the firm of George Dempster, Esq., & Company commenced as bankers, under the designation of the Dundee Banking Company. Unlike the Glasgow banks, this was (in form at least) a regular joint-stock company, the original partners in which numbered thirty-six, with a nominal capital of £12,600 in 63 shares of £200 each. Of this, only one-tenth was called up at first. The bank got into difficulties in comparatively recent years; but it was restored to a prosperous career by the discretion of the late Mr. C. W. Boase, who was appointed manager. While still under his management the bank, which had then a capital of £100,000 paid up, and a large business, was amalgamated with the Royal Bank of Scotland in 1864.*

* "A Century of Banking in Dundee." C. W. Boase. Edinburgh: 1864 and 1867.

CHAPTER VIII.

NOTE ISSUING MANIA AND THE ACT OF 1765.

THE year 1765 is notable, in Scottish banking, on account of the first Act specially regulating the business having been then passed. Previous to that date, there were no restrictions on the proceedings of the various establishments, other than those embodied in their individual constitutions, or imposed by the common law of the land; and it was only in the case of the three oldest banks that the constitutions were prescribed by competent authority; the others being entirely free to lay down, or abstain from laying down, such rules as to the partners seemed fit. In point of fact, however, the old establishments set the example, and moulded the general principles, which were adopted throughout the country, for the conduct of banking business. That they should have survived, while the majority of their imitators have passed away, is to be attributed to the fact that the younger establishments, in the eagerness of their rivalry, forgot the principles they nominally adhered to, while they had not sufficient strength and credit to carry them through trials which were met by their powerful competitors with comparative ease.

The comparative immunity from legislative interference which characterises banking in Scotland until the year 1844 has been an unmistakeable blessing to the country, and has saved the banks from those vexatious and unnecessary distinctions and restrictions which have hampered and distorted English banking. In Scotland, banking was

permitted to develop as the country advanced in wealth and in intelligence. Nay, it was even enabled to lead the nation on the path of prosperity, and to evolve, from practical experience a natural and healthy system of banking, which would have been impossible under close State control similar to that followed in other countries. Despite the manifest errors and stains conspicuous in the history of Scottish banking, the system matured by Scottish bankers is justly acknowledged to be a model one. Freedom, however, has its limits; and, at the time we are now dealing with, it had become absolutely necessary to impose some check on the indiscriminate issue of notes, which had been pushed to an extent which produced the pardonable, but not strictly accurate, contemporary exclamation of a writer in the *Edinburgh Advertiser*:—"Since the beginning of the world there never was a nation so much abused by banking as Scotland is at present, and probably never will again till the end of time." The grievance was not that there was an over-issue of notes (although that was freely stated), for with the system of periodical exchanges, which even then was pretty systematically carried out, that was impossible except to a small extent. The main evil lay in the pernicious practice devised, as we have already seen, by the Bank of Scotland during its early troubles with the Royal Bank (1730), of inserting in the bank notes a clause making them repayable at a term after presentation (usually six months) in the option of the issuers. Although it was stipulated that, in such circumstances, interest should accrue on the principal sum at 5 per cent. per annum, the option was entirely inconsistent with the nature of bank notes, whose legitimate character is that they should be convertible into specie on demand. More-

over, by this means, persons of little or no substantiality were enabled to raise money by an unadvisably easy method, which was availed of to a very large extent as far as the number of issuers was concerned.

This phase of the note circulation was greatly aggravated, by the practice of issuing notes for very trifling sums, varying from one shilling Scots upwards. The regular bankers do not seem ever to have adopted a smaller issue than five shillings; but a multiplicity of business firms, and small partnerships organised for the purpose, thrust their worthless paper on the public. This appears to have been accomplished, mainly, by employers of labour paying wages in this personally convenient form. It would probably be impossible to enumerate all the instances of this species of note issues, but the following examples may be both interesting and amusing. James Smiton, seemingly a coffee-house keeper in Edinburgh, obliges himself "to pay the bearer, on demand, in money or drink, two shillings and sixpence sterling," on the backs of which notes, it is stated, "are sometimes marked receipts for one or more mugs of porter, or bottles of strong ale, &c., in part [payment]." P. Williamson, Edinburgh, under the designation of the Ready-Money Bank, promises "to pay to Sir John Falstaff, or bearer on demand, in books, coffee, or ready-money, according to the option of the Director (!), One shilling sterling, value received." The Mason Barrowman Company of Edinburgh, issued a lengthily-worded and formidable-looking document for the value of one shilling Scots (one penny sterling). Perth, however, was the great seat of this industry. There, notes were issued by the "Wright Journiman Company" for one shilling Scots; by the "Tan-

nery Company;" by the "Craigie Company," and by three other firms. George Kellar & Co. in Glasgow, Martinson & Co. at Falkirk, James Scrimgeour & Son at Borrowstounness, and Alex. Fleming & Company at Kirkliston, issued similar notes. These, together with the Perth notes were made retirable in Edinburgh, when public opinion became clamant against this species of imposition. The position of this matter was rather piquantly hit off by a print, purporting to be a note dated Glasgow, 16th January, 1765, promising to pay one penny sterling or, in the option of the directors, in three ballads, six days after demand. The border was ornamented with figures of wasps, and the note bore the motto, "We swarm."

Although this state of matters was highly objectionable, and justified the futile endeavours of county magnates to refuse such notes in payment of rents, taxes, &c., the existence of these notes was occasioned by a severely felt public want of a medium for small payments. The metallic currency of Scotland was, and had been for an indefinite period, in a chronic state of insufficiency. Some theorists may hold that the paper drove out the coin; but, although this is a sound theory in general, it will not hold in the present case, for the want of coin was felt before any notes existed, and the denominations of the notes were only lowered below £1 as the necessity for small change became pronounced. Moreover, it is clear that there was a distinct suction of coin to England, to assist in meeting war expenditure abroad; and during the intervals of peace, English investments in Scotland were withdrawn for employment at home, where a state of war prevented so profitable a use of capital as the poverty of Scotland at all times admitted of. From innumerable statements, it is

evident that the silver coinage in Scotland (gold had been almost entirely replaced by notes) was altogether inadequate to meet the requirements of the people. Even the large banks experienced great difficulty in maintaining their reserves. This scarcity of coin was the cause both of the optional clause, and of the issue of small notes. Indeed, some contemporary writers held that the optional clause was a necessary counteraction to the tricks of English bullion jobbers, who drew fictitious bills on London, at 30 days currency, which they sold in Edinburgh at a premium for notes payable on demand. These in turn being converted into gold, the proceeds were sent to London to meet the bills which would fall due a few days after the arrival of the remittance.

In response to the agitated condition of the public mind in regard to the note circulation, the Bank of Scotland and the Royal Bank induced the then Lord Advocate, Thomas Miller, Esq., of Barskimming, afterwards Lord President of the Court of Session and a Baronet, to bring in a bill dealing with the subject. The result of this representation was the Act of George III. cap. 49, intitled, "An Act to prevent the inconveniences arising from the present method of issuing notes and bills by the banks, banking companies, and bankers, in that part of Great Britain called Scotland." The provisions of this Act were—(1) That from and after 15th May, 1766, it should not be lawful to issue "any note, ticket, token, or other writing for money, of the nature of a bank-note, circulated, or to be circulated as specie, but such as shall be payable on demand in lawful money of Great Britain, and without reserving any power or option of delaying payment thereof for any time or term whatever." Also, that such

as were in circulation at that date, should thenceforward be deemed payable on demand. (2) That summary execution might proceed on all bank-notes not paid on demand—one protest being allowed to include any number of notes. (3) That from and after the 1st day of June, 1765, no bank note should be issued for any sum of money less than 20s. sterling; and that those which had been issued up to that date might be allowed to circulate for one year thereafter. The penalty attached to infringement of the provisions of this Act was a fine of £500 with costs of suit, payable to informers. The delays prescribed for the full enforcement of the provisions of the Act were doubtless intended to allow time for the accumulation of reserves of coin, and for an increase in the metallic circulation; but it does not seem that the Government took any steps towards practically assisting this movement. Indeed, it is probable that unless the banks had themselves moved in the matter, the abuses of the circulation would have gone on unheeded by the rulers of the land, whose heads were always more engrossed, in those days, with foreign dynastic intrigues, and the raising of loans and taxes at home, than with the social questions which distressed their subjects.

We are now approaching the great Scottish banking crisis of 1772, which will fall to be treated of in our next chapter; but meanwhile we may note some of the principal incidents which occurred from 1763 till that date, other than those already dealt with. In our last chapter we alluded to the establishment of the Dundee Banking Company of George Dempster & Co., which commenced business on 1st August, 1763, with a paid up capital of £1260. Although during the century of its existence,

terminating with its amalgamation with the Royal Bank of Scotland in February, 1864, it gradually developed into an institution of no small moment, having a paid up capital of £100,000, deposits to the amount of £685,000, and a note circulation of £41,000, it was in its early years classed with the note societies of which we have been treating. It was, however, from the first in all respects a bank; and although about the year 1837 it was actually in a state of insolvency, from which it was only rescued by systematic good management, it played a most important part in developing the industries of Dundee and Forfarshire; and as the first bank formed in Dundee, and one of the earliest and most successful of the provincial banks, it possesses a peculiar interest. Its progress has been fully chronicled in a series of valuable but dry and undigested statistics and notes, by its last manager, Mr. C. W. Boase, who, while managing partner of the Dundee New Bank, was called on to re-adjust its embarrassed finances; which, as we have seen, he amply succeeded in doing. The private firm of John Macadam & Co., in Ayr, (or Air, as it was then spelled) was also established in 1763. The business was purchased eight years later by Douglas, Heron & Co. About this time a new bank was started in Glasgow, viz.: The Merchant Banking Company of Glasgow. The year 1766 witnessed the formation of the Perth Banking Company, which existed until 1857, when it joined the Union Bank of Scotland, and the firm of Alex. Johnston, Hugh Lawson & Co. in Dumfries, which was another of Douglas, Heron & Co.'s bad bargains. In the succeeding year, the long-headed Aberdonians made up for their abortive scheme of 1749, by establishing the Banking Company in Aberdeen, which proved a most wonderful success. It was

organized as a regular joint-stock company, with a paid-up capital of £30,000, and appears to have been managed with consummate ability. Over a series of years its dividends averaged 8 per cent. per annum, besides occasional large bonuses added to paid-up stock. In 1836 the paid-up capital was £200,000, of which £170,000 was accumulated from profits, in addition to a reserve of £50,000. The shares, bearing £150 paid, sold in 1821 at £1400, and in 1836 they were worth £3000. This singularly prosperous concern was merged in the Union Bank in 1854. Two years later, the miserable three years' fiasco of Douglas, Heron & Co. commenced its ruinous career.

CHAPTER IX.

DOUGLAS, HERON AND CO., AND THE CRISIS OF 1772.

THE action of our history for the year 1769-72 centres and culminates in the rise and fall of the banking-house of Douglas, Heron & Co., trading under the designation of the Ayr Bank. With the exception of the Darien Scheme, the failure of which is attributable in great measure to circumstances independent of its constitution and management, there has never been in the history of Scotland so signal an instance of financial mania. We do not mean that the contract of co-partnery was framed on erroneous principles, or that the operations of the bank were absolutely prejudicial to the country. On the contrary, the constitution of the company was carefully drawn, and provided the usual preventives to mismanagement; while advances made to customers had a very stimulating effect on the agricultural and other industries of the nation. The madness consisted in the unwritten principles on which the promoters started and carried on the concern. The promoters were, seemingly, men who, like too many business men of the present day, thought that the old banks selfishly studied their own interests to an extent both unnecessary and injurious to the progress of the industries of the country; and that, at the same time, they were monopolising a lucrative trade, which could be profitably competed for by men of larger views. They, therefore, (to quote their own words) "considering that the business of banking, when carried on on proper principles, is of

great public utility, particularly to the commerce, manufactures, and agriculture of a country, at the same time that it may yield a reasonable profit to the bankers concerned in it; and likewise considering the necessity there is in the present situation of the country, that a Banking Company should be created on proper principles at this juncture . . . resolved to establish a Banking Company upon a solid, creditable, and respectable footing." The contract of co-partnery is dated 24th August, 1769, and provided for a capital of £150,000. Among the original shareholders, whose subscriptions amounted to £96,000, were the Duke of Queensberry and Dover, Governor; the Duke of Buccleuch; the Earl of Dumfries, Director; the Earl of March and Ruglen; the Hon. Archibald Douglas of that Ilk; Patrick Heron of that Ilk, and several other distinguished and respected names. The list numbers 136 in all, and embraces men of "rank and fortune," lawyers, merchants, shopkeepers, &c., but no bankers. The advent of this great company was the occasion of general congratulation, of which the following may serve as a specimen:—"The utility and advantage of a Bank of this kind to the country is too obvious to require any commentary. Its influence upon the commercial part of this nation, the evident tendency it must have to forward the improvement of the country, and the aid and support which it must naturally afford to its manufactures, were the inducements of those concerned to establish it, and are the benefits expected to be derived from it—events wished for by all who are lovers of their country." This was an euphonious, perhaps inspired, declaration of the origin of the bank, which is more plainly and authoritatively described by Sir Wm. Forbes. "Some of the

houses which carried on the banking business in Edinburgh, having embarked in extensive speculations for the purchase and cultivation of lands in the newly acquired West India Islands, required a larger capital than their own resources could command. To this must be added, the rage which then began to take place for building larger and more expensive houses than had been customary in Edinburgh before the plan of the New Town was set on foot; and larger houses led to more extensive establishments, as to furniture, servants, and equipages. At the same time those projectors and improvers, flattering themselves with the prospect of the immense advantage to be derived from their speculations, launched into a style of living up to their expected profits, as if they had already realised them. Such causes combined had induced those gentlemen to have recourse to the ruinous mode of raising money by a chain of bills on London; and when the established banks declined to continue a system of which they began to be suspicious, the Ayr bank was erected."

On 6th November, 1769, the head office was opened at Ayr, and soon afterwards branches were opened at Edinburgh and Dumfries. Among the partners were many members of trading firms, who immediately secured for the new bank an extensive advance business. Indeed so large were their demands, and so accommodating were the directors, especially at Ayr, that the coffers of the company were speedily emptied. This circumstance, however, occasioned no uneasiness. When the capital and deposit money was exhausted, they had an inexhaustible treasury from which to feed the insatiable demands of their customers. They had paper money "for the makin'," and they proceeded to manufacture it right heartily. Before long,

however, their inexhaustible treasury began to manifest symptoms on which they seem never to have calculated. The notes came back on them for payment almost as quickly as they were issued. The directors had little specie to pay them with, and the partners were paying up the periodical instalments of their subscriptions in an unsatisfactory manner. Difficulty, however, is the opportunity of genius. A banker of merely average ability would, in such circumstances, restrict his advances and endeavour to replenish his cash reserves. But the directors of the Ayr Bank, like those of two long-to-be-remembered Glasgow banks, breathed the upper strata of the economic atmosphere. Their mission, like that of their predecessor, John Law, and the typical modern American, was that of the "eye-opener;" and it must be admitted that if, in a purely literal and technical sense, they failed, in another and hardly less literal sense, they achieved their object a couple of years later. Instead of contracting their business as they ran out of funds, they increased their engagements. To provide themselves with funds, they arranged with certain firms in London to accept bills on their account at a commission; and with their notes they purchased bills of exchange on London from the Edinburgh bankers. Thus assisted, and aided by a call of 20 per cent. on the shareholders, the affairs of the company proceeded pretty smoothly for some time during the year 1770, though the London debt stood at £85,000. Bills maturing were met by renewals, which were readily granted as the commission was tempting, and the liability of a wealthy proprietary was unlimited; and further requirements were similarly provided for. But early next year the London debt assumed a threatening aspect. Dimsdale & Co., the

London correspondents, refused further assistance. A deputation to London, however, overcame obstacles and arranged for further credits. Meantime the management went from bad to worse. Irregular advances were made to privileged individuals; the circulation of notes was forced by means of paid agents scouring the country for specie and notes of other banks; the affairs of the company were represented to the shareholders as in a flourishing condition; and a dividend was declared in May, 1771. The business of John Macadam & Co., bankers in Ayr, was purchased on 1st January of that year for £18,000; and, on the following 29th October, that of Alex. Johnston, Hugh Lawson & Co., in Dumfries, was acquired for £7,350. Neither of these houses seems to have been in a satisfactory condition; and Johnston, Lawson & Co. were virtually insolvent. Meanwhile the capital had been increased beyond the originally designed £150,000, the old directors were regularly re-elected, and affairs went on in the usual way.

In May, 1772, the directors began to realise the gravity of the situation, and resolved on retrenchment. But the opportunity for such a course had passed, and irretrievable ruin stared them in the face. Even if they had had the moral courage (which they had not) to put their resolution into force, their power of doing so was gone. They were so hopelessly involved in the web they had themselves woven, that they could only passively submit to the fate that awaited them in a few weeks. Their bills on London had rapidly augmented until they amounted to about £400,000; they had more than £200,000 of notes in the circle, and £300,000 of deposits, and but small available funds. The Edinburgh banks had refused to hold their

paper, and even their hitherto fertile genius was at last unable to devise an alleviation for their distress. They struggled on, nevertheless, and, aided by the general ignorance of their position, managed wonderfully to maintain their credit.

But in the afternoon of Friday, the 12th of June, a horseman, in extreme haste, rode into Edinburgh. He had travelled from London in the extraordinary space of forty-three hours. The news he brought accounted for his speed. The banking house of Neale, James, Fordyce and Downe had failed, and dragged down other firms with it, from which a terrible panic had ensued. These were dire tidings for the financial houses of the Scottish metropolis. All, except the few who had preserved the even tenor of their way, unallured by will-o'-the-wisp dreams of suddenly got wealth, read their doom in the message. To none must the news have had more purport than to the Edinburgh board of the Ayr Bank, who, although not at the chief seat of management, were perhaps even more involved than the Ayr board in maturing and carrying out the credit and exchange transactions. They had intimate relationships with most of the private banking houses in Edinburgh, in order to assist the floating of their paper. The first of these firms to collapse was Fordyce, Malcolm & Co., who stopped payment three days after the arrival of the news from London. Next day, the 16th, Arbuthnot & Guthrie followed suit. These failures, and fears of more to follow, seem to have raised the first excitement to a considerable pitch. A rumour got abroad that the bills of the Ayr Bank were refused for discount in London. "Terrified with the apprehension that an immediate stoppage would be the consequence, the common people ran in

crowds to draw specie for their notes; and on Tuesday evening the following advertisement was handed about in Edinburgh:—'*Bank Office, Canongate, June* 16, 1772.—Whereas the Branch of Douglas, Heron & Co., here, have for these two days past had an immense demand for specie, from the lower class of people, in exchange for notes, owing, as it is suspected, to some ill-grounded reports raised by foolish or malicious persons respecting said branch, a reward is therefore offered of one hundred pounds sterling, to any one who will discover the person or persons who have been concerned in raising such an infamous report; the reward to be paid by Mr. Hogg, cashier, upon conviction of the offenders. For Douglas, Heron & Co., Tho. Hogg, cashier.' This advertisement, joined with the knowledge of the solid foundation of that company, in a good measure quieted the minds of people, and the ferment had greatly subsided. But new failures continuing to happen, the demands on them for specie became greater than ever." On the 24th June, the important firm of Wm. Alexander & Sons, with Gibson & Balfour, Andrew Sinclair & Co., Johnstone & Smith, and Garbet & Co.—all well-known houses—suspended payment. The demands on the Ayr Bank had now become too great for their restricted treasury; and on the morning of the 26th they issued the following circular:—"*Air, June* 25, 1772.—The company of Douglas, Heron & Co., Bankers in Air, taking into their consideration the present state of the credit of this country, and the uncommon demands that have been made upon them for specie, owing to causes sufficiently well known, have come to a resolution to give over, for some time, paying specie for their notes. But as the country, who have received the most liberal aids from this

company, cannot entertain the smallest doubt of the solidity of its foundation, it is hoped, that, on occasion of a national emergency of this kind, the holders of their notes will not be under any alarm." The circular, which was signed by John Christian, cashier, proceeded to declare that interest at 5 per cent. per annum would be allowed on notes remaining in the circle, for which a bond was duly executed on 4th July succeeding. The Ayr office appears to have closed on 22nd June.

Thus passed away in a thunderstorm, originated by their own actions, a great house who had promised much, and of whom much had been expected. Their hopes of resuming business speedily vanished amid the engrossing difficulties of providing for their outstanding liabilities. The Bank of England had refused assistance—they had probably enough on hand with their clients in London, for the crisis there was of the gravest nature, and they had already £150,000 of Ayr Bank paper on their books,—so the directors, who had been sent to London to negotiate a loan, were at their wits' end how to accomplish their mission, notwithstanding they had two noble dukes and many other influential and interested friends to assist them. Eventually they succeeded in raising £356,715 on most exorbitant terms, viz., at the rates of an annuity of £100 a year for life on payment of £700, or on two lives for £800. The total sum raised, as afterwards redeemed under authority of a special Act of Parliament, was £457,570.

These events were productive of much hardship to the public, for, although the shareholders of the Ayr Bank were, for the most part, well able to meet their losses, the failure of so many bankers produced a general distrust,

which for a time paralysed the note circulation of most if not of all the banks. In this connection it is gratifying to note the position of the three public banks and the leading private bankers in Edinburgh. These, or at least the two old banks, had for some time previous to the crisis been expecting and providing for it. They had refused dealings with Douglas, Heron & Co., and had made ample provision for the catastrophe which they anticipated as the consequence of that company's proceedings. The result is recorded by Sir William Forbes. "Besides the Bank of Scotland, Royal Bank, and British Linen Company, which were established by public authority, the only private companies that continued solvent were Mansfield, Hunter & Co., William Cuming & Sons, and our own." From other records, it would appear that two or three individual bankers also survived the crisis; but it is probable from the omission of reference to them by Sir William, that their banking business was of small extent. "On Monday, [presumably the 29th June], a very smart demand for money took place on us all, just as had happened the preceding week in London [Black Monday, the 22nd]. This was a new and unexpected circumstance; but as neither our house nor any of those others had been engaged in the circulation carried on from Scotland, and were sufficiently provided with funds to answer promptly all the demands that were made on them, the panic abated after two o'clock on Monday, and the public confidence in their solidity was restored."

Glasgow and the provinces of Scotland suffered but little, in comparison with Edinburgh, in this crisis; as, with the exception of Douglas, Heron & Co.'s connections in Ayr and Dumfries, they were not involved in the fictitious

exchange business to any great extent. The Merchant Banking Company of Glasgow, however, was forced to suspend payment on the 9th of July. They announced on that day that they would resume on the 9th of October, and they appear to have been able to do so sooner. As confidence was felt in their solvency, their notes, together with those of the other local banks, remained in free currency. Similar confidence was shown in other banks throughout the provinces. William Alexander & Sons resumed business in Edinburgh on the 13th of July; but whether they retained their banking as well as their mercantile business does not appear.

It was a fortunate circumstance in connection with this crisis that an Act of Parliament, amending the bankruptcy laws of Scotland, had been passed just in time (the Royal assent was given June, 1772) to preserve the equality of rights of creditors in the numerous bankruptcies that occurred. Previously creditors ranked by priority of arrestment, and thus debtors could give and creditors secure undue preferences. The Act 12 Geo. III., cap. 72, abolished this system, and made several salutary provisions for securing the rights of creditors.

At the time of stoppage, the Ayr Bank had a capital stock of £160,000, of which £130,000 was called up; but, of course, the partners were unlimitedly liable for the debts of the company. The number of shareholders, shortly before the crisis, was 241. The total liabilities, including the capital, were not less than £1,250,000. These are specified in round numbers as capital stock, £130,000; private loans (deposits), £300,000; note circulation, £220,000; and current bills on London correspondents, £600,000. The assets consisted of (1) advances of various

kinds at Ayr, Edinburgh, and Dumfries, amounting to £694,175 19s.; (2) advances at agencies which had been established at Glasgow, Inveraray, Inverness, Kelso, Montrose, and Campbeltown, £133,788 0s. 11d.; (3) bills of exchange, principally held at Edinburgh, £409,079 7s. 2d.; making a total of banking debts, £1,237,043 7s. 1d.; and (4) an unascertained amount of fixed capital, such as buildings and furniture in use for the business. Of the debts due to the bank, about £400,000, consisted of advances made to partners.

On 28th September following, the bank offices were re-opened, but notes were payable in specie only at Ayr. At Edinburgh interest was paid on notes for the period of suspension, in specie when less than 20s., and in notes when amounting to that sum. For the convenience of holders of large notes, small notes were given in exchange. The Edinburgh banks and private bankers would not receive Ayr bank notes. The bank continued to struggle on in this fashion for nearly a year after resuming, but at a general meeting of the partners in August, 1773, it was unanimously resolved to give up business. The liquidation was conducted in Edinburgh. Although the shareholders were well able to bear the strain of meeting the liabilities of the partnership, the losses were felt very severely. No less than £750,000 of landed property is stated to have been forced into the market through the failure of the bank, and the ultimate loss to the partners is estimated at £663,396 18s. 6d.*

The shareholders were very indignant at the outcome of the brilliant essay at banking into which they had been drawn, and this feeling was much intensified when revela-

* "Scotch Banks and System of Issue"—R. Somers. Edinburgh, 1873—p. 103.

tions were made of gross irregularities and reckless mismanagement. A committee was appointed to investigate the affairs of the company; and their report, presented in August, 1777, and subsequently printed as a thick folio volume, gives details which fully corroborated the accusations made, and forms a detailed history of the bank.* The book, although now but little read, is also valuable for the lessons it teaches. In almost all their transactions, the directors appear to have acted in the wildest manner. Advances for the development of agriculture were made profusely far beyond the ability of the country at that time to sustain, and still further beyond the resources of the bank; and worse still, the requirements of speculative customers were freely met by the discount of bills. As their resources failed, the directors pressed their notes into circulation, in the false hope that they would remain in the hands of the public. As they found that their notes came back upon them very speedily, they resorted to raising an ever-increasing amount of money in London by bills, until the amount of the London debt was so great that their credit in that quarter gave way. But worse than recklessness was proved against them. Privileged persons got advances either without security, or on worthless cash-credit bonds and bills, to the extent of £361,611 17s. 6d. Even after the failure, mismanagement continued. The raising of money on annuities, to which we have referred, was conducted on ruinous terms, and it appears that some of the funds so obtained were misapplied in several cases, and a sum of £6,220 was not accounted for.

In reviewing this crisis, it is evident that much of its

* "The Precipitation and Fall of Messrs. Douglas, Heron & Company, late Bankers in Air." Edinburgh, 1778.

intensity was due to the unadvisable conjunction of mercantile with banking business, which had always been a prominent feature of private banking. It may be thought that an over-issue of notes was a leading feature in the failure of the bank. But this was not so. A vigorous and sustained effort at over-issue was made all along; but the effort failed by the physical impossibility of making the public hold more notes than they required. The system of exchanges, moreover, expedited the return of the notes for payment. All the Edinburgh houses which fell, with the exception of the branch of the Ayr Bank, were general traders and speculators, as well as bankers. Although Douglas, Heron & Co. were not directly engaged in mercantile pursuits, they were entirely under the influence of the mercantile spirit. Their existence began, and their business was conducted, in close alliance with merchant banking. The collapse of 1772 effected a thorough revolution in this matter; and, although private banking again assumed a very active existence, its subsequent career witnessed a complete severance of the hitherto somewhat indistinctly defined departments of banking and commerce.

CHAPTER X.

RESUSCITATION OF PRIVATE BANKING AND RAPID DEVELOPMENT OF JOINT-STOCK BANKS.

THE crisis of 1772, which formed the subject of our last chapter, although sharp and disastrous in its immediate effects, passed off more quickly and easily than might have been expected. Several causes conduced to this. The old banks, and the three private banking houses of Forbes, Mansfield and Cuming, who were almost the sole surviving representatives of what had been a large community of financial establishments, had foreseen and provided for the approaching catastrophe; and, being themselves unentangled in the speculations and grotesque banking indulged in by Douglas, Heron & Co., and their clique, they not only themselves rose lightly on the wave of adversity, but were able to afford the necessary banking accommodation to *bona fide* traders and the public. It was remarked at the time that the forbearance of creditors largely aided the recovery from the crisis; but this was only an unphilosophic way of stating that business was in the main sound, and that money was fairly plentiful. Coin, it is true, was scarce, but the notes of the public banks were in full credit. The crisis was essentially a banking one; and although it was necessarily directly associated with trade, it would appear that that connection was, as far as Scotland was concerned, limited to a comparatively small section of the community. The resolution of the banks, in 1773, to accept the notes of the Ayr Bank in payments, when that

establishment finally agreed to give up business, was a further assistance in the restoration of confidence. The harvest of 1773 was fairly good, the fisheries excellent, the cattle trade active, and money cheap.

Hardly had affairs resumed a satisfactory aspect, when the dark cloud of war cast its shadow over the land. Complications with the American Colonies arose, and rapidly drifted into open rupture. In January, 1774, hostilities commenced, which did not end until 1782, when the independence of the United States, who had formally thrown off their allegiance to their tyrannical parent six years previously, was acknowledged by Great Britain. Meanwhile the latter country was at war with France, Spain, and Holland; had to sustain repeated reverses in India, at the hands of the victorious Hyder Ali; had to stamp out sedition and open rebellion in Ireland; and had to check discontent and riots within its own borders. It does not concern us here to discuss the policy of the British Government during those events; but the events themselves are potent factors in the history of banking. The national expenditure had assumed enormous proportions; and although increased taxes were laid on the much-suffering public, the warlike and aggressive rulers of a commercial people year by year dragged their subjects deeper into debt. The American war alone cost 129 millions sterling, besides the loss of 50,000 men. The financial result of the eight years of warfare, ending with the peace of January, 1783, was that the national debt was increased from 136 to 238 millions sterling, even after exhausting efforts to balance expenditure and income.

Although Scotland had to bear her share of the burden of the national foreign policy, she, as usual, suffered less

from its effects than her more wealthy and powerful neighbour. England being much farther advanced in its social condition, relied greatly on its foreign trade, which was crippled by a state of war; while Scotland, in its comparatively backward state, had enough to occupy its attention in the development of its agricultural and other industries. The scarcity of specie, moreover, from which it was a chronic sufferer, but which was aggravated by the foreign expenditure for military and political purposes, was largely counterbalanced by the readiness with which paper money circulated. For sums of £1 and upward there was practically no want of money, but it must be admitted that for smaller payments there was great lack of a medium. It would seem, nevertheless, that about the year 1776, loanable capital was more abundant, and the value of land vastly greater than at any former period. As regards the banks—both corporate and private—the national difficulties were actually a source of great advantage, as they readily invested in British Government securities, and Bank of England stock, at greatly depreciated prices, from which they realised large profits when these securities rose in value on the return of peace. So much was this the case, that serious accusations were made against them from time to time for diverting the funds, which should have been employed in the nourishment of the national industries to stock-jobbing purposes. As Sir William Forbes explains the matter, however, they seem really to have been more shrewd and prudent in the management of their own affairs than neglectful of their public duties.

Almost immediately after the collapse of private banking in Edinburgh, in 1772, it arose as a Phœnix from its ashes, renewed in vitality, and purified from the evils

which had attached to its former condition. The houses of Sir William Forbes, J. Hunter & Co., and Mansfield, Hunter & Co., who were destined for a long and honourable career, and who, together with the firm of William Cuming & Sons, and presumably that of Thomas Kinnear & Sons,* had easily survived the trials which ruined their imprudent brethren, were not long left undisturbed by rivals. In 1773, the firm of Donald Smith & Co. commenced business; and three years later Robert Allan and Alex. Allan (they were not, if we are rightly informed, relations), established the houses which were well known in the earlier part of the present century, as Robert Allan & Son, and Alexander Allan & Co. About this time the firms of Bertram, Gardner & Co., and Allan & Steuart, and one or two individual bankers, began their career. Wm. Scott was in business in 1778; John Wordie is included in a list of bankers in the same year; and, as he was Dean of Guild in the Edinburgh Town Council previous to 1769, it is probable that his business was of older standing. In the provinces, a few new private banks were started. Mr. Hunter, who had been cashier in Ayr for Douglas, Heron & Co., founded the successful business of Hunters & Co., which exists still as the Ayr office of the Union Bank of Scotland. The Stirling Banking Company and the Commercial Banking Company of Aberdeen were formed soon afterwards. During this period (1772-82) two banking failures occurred, but they were not of much moment. We allude to the temporary suspension of John Fyffe, Edinburgh, who was probably more an agent for country banks

* Sir William Forbes expressly says that, besides the public banks, only the three first-named banking firms continued solvent. We are unaware, however, of any other authority for supposing that the Kinnears suspended payment at that time. The house continued until 1834.

than a banker on his own account; and the final collapse of the Merchant Banking Company of Glasgow, who closed their doors during the difficulties of 1772, but who were resuscitated into a spasmodic existence by the public spirit of the western metropolis.

In 1774 the Bank of Scotland made a third and successful attempt to establish a branch system in the provinces. The localities first selected were Dumfries and Kelso. Next year an office was opened in Ayr; and shortly thereafter, their operations were extended to Kilmarnock, Inverness, Aberdeen, and Stirling. That at this time their funds were accumulating in their hands seems to be indicated by an advertisement they issued on 3rd May, 1775, offering to lend money at Whitsunday on heritable security. This loan, we are told, was soon completed. The improvement of the gold coinage also occupied the attention of the Bank at this time. That reform had been prescribed in 1773 (Act 13, Geo. III., cap. 71). That it was much needed is evident from the fact that, including both England and Scotland, it entailed a loss of upwards of one million sterling, £300,000 of which fell on the holders of light coin. By a second Act of Parliament, obtained in 1774, the Bank of Scotland was authorised to increase its capital from £100,000 to £200,000. It would appear that up to 1773 the amount of capital called up was 80 per cent.; and in that year "it was resolved to make a call for the remaining two-tenths of their capital not yet paid up, by which the bank will be enabled to give an aid more effectually to the country, now that Messrs. Douglas, Heron & Co. have given up the banking business." According to a pamphlet which appeared in 1778, but for the accuracy of which we cannot vouch, the Bank of Scotland

attempted in a discreditable manner to acquire, through the agency of a private banking firm, a secret influence in the management of the Royal Bank. Their mode of doing this was to enable their friends to purchase the stock of that bank in sufficient quantities. This plot, if it was actually ever laid, does not appear to have had any effect on the policy of the intended victim; but that there was some foundation for the story is rendered probable by the fact that in 1778 we find the Royal Bank renewing hostilities with the old bank by pursuing the old tactics of "making a run" on its rival. As the latter was in a strong position, this movement cannot have had any serious effect, but it points to some cause for grave displeasure on the part of the younger establishment. But if one pamphleteer abused the Bank of Scotland, another who appeared about the same time was not less animated (although less effective) in his reflections on the Royal Bank. About the same time there was a rumour of a projected union between the two banks, which had doubtless some connection with the incident to which we have just referred; but it does not appear that open overtures were made on the subject. It is more than probable that any desire which may have existed on the part of the Bank of Scotland for the accomplishment of this object—the Royal Bank appears to have been entirely passive in this drama, except in so far as its retaliatory measures are concerned—never assumed a very definite shape. At this time an animated warfare was also being carried on between the Glasgow and Aberdeen bankers.

With the advent of peace in January, 1783, there dawned on Britain a period of comparative prosperity, during which mechanical science made considerable progress. The

ultilisation of steam as a motive power; the improvements of Arkwright and others, on machinery for the manufacture of textile fabrics; and the improvement in the means of communication throughout the country, by the regular organisation of mail coach routes, and by the formation of canals, at once evidenced a material advance in the intelligence of the nation (of which the resolution come to a few years later to abolish the slave trade was one of the earliest fruits), and provided the means for carrying out their enlarged views. Alluding to this satisfactory change, the directors of the Royal Bank, in the course of an unfortunate rupture which occurred between them and an important private banking house some thirty years later, make the following statement:—"The fact is, that during the times to which Messrs. Ramsays, Bonars, & Co. allude, more especially from 1783 to 1792, the circumstances of the country underwent a more favourable change than they had ever done in so short a period at any former time. The improving agriculture and trade of the country at this time required a much greater circulation. Hence the banking business became more profitable, and the Royal Bank among others shared in the prosperity of the times." During the same period the average dividend of the Bank of Scotland, on an enlarged capital, was higher than for some time previously; and a great increase occurred in the amount of capital devoted to banking in Scotland. The latter movement appears to have been inaugurated by the Royal Bank, who, in March, 1783, added to their original capital of £111,347 19s. 10½d., a sum of £38,652 0s. 1½d., thereby raising it to £150,000. In June following they obtained their fourth charter, which authorised a further increase to £300,000. This operation

was carried out at Midsummer, 1784. Under the authority of a fifth charter, dated 5th June, 1788, they again doubled their capital. The former increases, and £100,000 of the increase in 1788, were made out of profits, without any payment on the part of the proprietors. At Christmas, 1793, the capital was further enlarged from £600,000 to £1,000,000, but without any transference from profits. The Bank of Scotland was not long in following suit. As we have already seen, they had doubled their capital in 1774. In 1784 they obtained their third Act of Parliament, aurhorising an increase from £200,000 to £300,000; in 1792 they got a fourth Act to permit an addition of £600,000; and in 1794, the capital was further raised to £1,000,000. Unlike the Royal Bank, however, the subscriptions were not fully called. How they amalgamated the original £100,000, which, as we saw, was fully called, with the subsequently created capital, does not appear; but it is probable that the 20 per cent. called in 1773 was repaid to the stockholders.

But it was not only in Edinburgh that long steps in the development of banking were being taken. Although on a much smaller scale, the provinces also were making decided advances. Full details regarding the country banks are awanting; but the following particulars relating to the Dundee Banking Company are significant. In 1784 the paid-up capital was increased, out of profits, from £8560 to £10,700; in 1786 a call was made, raising it to £21,400; and in 1794, a further addition was made, which raised it to £31,700. About three-fourths of the last-mentioned sum was, however, repaid to the partners, and it was not until 1839 that this decline was fully made up again. The profits, during the period with which we are

dealing, do not seem to have kept pace with the increase of capital. It may be presumed that other provincial banks contributed a share in the increase of banking capital; but, at any rate, there was a striking tendency to the erection of new banks. The Paisley Banking Company was established in 1783; the Merchant Banking Company of Stirling in 1784; the Greenock Banking Company in 1785; the Falkirk Banking Company in 1787; the Paisley Union Bank Company in 1788; the Dundee Commercial Banking Company, and the Leith Banking Company in 1792.

Of course, none of these banks were corporate bodies; for at that time, and for many years thereafter, the only way of obtaining corporate privileges, was by obtaining the special consideration of the Crown or of Parliament. They were all, therefore, private partnerships; but most of them were on the joint-stock principle, having a definite amount of transferable capital divided into shares. Some of them, however, were nothing more than banking firms, consisting of a very few individuals, although taking a local designation. The only banking corporations existing at that time were the Bank of Scotland, and the Royal Bank of Scotland. The British Linen Company, although also a corporation, and actively carrying on banking business, were not nominally authorised to act as bankers until 1849. It is worthy of notice, in connection with the recent agitation regarding the rights and privileges of banks, that the essential difference between the old banks as public corporations, and the new banking companies as private partnerships, was, until comparatively recent times, invariably taken for granted. When, however, incorporation became attainable by simple registration under a

general statute, the distinction was to a large extent lost. The subsequent growth of the younger banks, to dimensions similar to those of their older rivals, has now almost obliterated the distinction to all but those who have carefully studied the subject. This leads many to assert, that the old banks have had special privileges conferred on them. The truth is, that the old banks started under the the only conditions that were possible at the time they were formed. Since then they have grown in proportion to the progress of the work they commenced and carried on to the benefit of the public; but they have not otherwise altered, nor have they had any further special privileges conferred on them. The change which has taken place is entirely on the part of the other banks, who have, from time to time, reaped the benefit of subsequent legislation, which has gradually extended to them all, or nearly all, the advantages which could only be bestowed formerly by the special interposition of the sovereign individually, or by concurrence with the legislature. It is not out of place here to refer specially to the question of limitation of liability of members of corporations, for contemporary records are full of references to the subject. These references, however, are never connected with any questioning of what is now a sometimes debated point. They never have any other phase than simply pointing out the difference existing, in this and other respects, between the "public banks" and the "new banking companies,"—for so they were usually respectively designated.

CHAPTER XI.

THE CRISES OF 1793 AND 1797.

THE Treaty of Paris, concluded between Britain, France, and Spain, in January 1783, inaugurated a period of ten years' peace. This was abruptly and terribly ended by the great French Revolution, which appears to have been only the most hideous manifestation of an almost world-wide disturbance in all departments of the civilised economy. Great changes had taken place in men's views; and with the progress of knowledge, and the increase of wealth, there spread a desire for liberty which rapidly developed into licence. Comparatively isolated as Scotland was, it reflected in a marked degree the tendencies of the time. The rude and simple living Scot had become luxurious as his wealth increased; and the vices of advanced civilisation manifested themselves in a corresponding ratio. This was particularly the case in Edinburgh, which had always been far ahead of the rest of Scotland. The city had spread out its borders to a large extent; and with the exodus of the higher classes from their pent-up alleys and courts to the spacious streets and squares of the new town, a complete change occurred in the manners and customs of the citizens. Scotland, like the rest of the European nations, had awakened to a sense of its inherent power. It cannot occasion wonder that this social revolution was accompanied by excesses; and it is matter for congratulation, that the natural good sense of the people kept them within comparatively moderate bounds.

In our last chapter we traced the rapid development of banking in Scotland, which accompanied this progress of the nation in material prosperity. It remains for us on the present occasion to bring down our narrative to the close of the century, which terminated with the consolidation of the empire as the United Kingdom of Great Britain and Ireland.

In 1783, simultaneously with a large increase in their capital, the Royal Bank for the first time departed from their policy of confining their operations to the Metropolis, by opening an office in Glasgow. It would appear, however, that this desirable and too long delayed operation was performed in a very humble manner. According to an interesting record of banking events in Glasgow, "their first office was on the one side of a small shop in 'Hopkirk's Land,' east side of High Street, five doors north from the corner at the Cross. Their agent carried on his ordinary business of a linendraper on the other side of the shop. The rent paid by the bank was £2 10s. annually. The agent had been originally a herd-boy, afterwards a weaver in Paisley, Hamilton, and Cambuslang, thereafter a clerk to a silk-mercer in Glasgow, and at the time the bank employed him, he was, as already said, a linen-draper on his own account."* If this account of the commencement of their direct connection with Glasgow be correct, it is evident that they had no great faith in its success. Their subsequent policy in regard to branch extension shows a strict adherence to conservative views. It was not until the collapse of the Western Bank, in 1857, that they adopted in earnest the theory of a branch system.

With the exception of a slight panic which seized the

* "Banking in Glasgow during the Olden Time"—Glasgow, 1862,—p. 23, note.

depositors with private bankers in Edinburgh in 1788—a consequence of several severe failures among corn merchants and distillers, with whom they were involved—few incidents of importance fall to be considered until the year 1793. The private banking house of Seton, Wallace & Co. was established in Edinburgh in 1791. It does not seem to have existed for more than fifteen years, as the firm is not mentioned after 1805; probably owing to the death of Mr. Alex. Wallace, on 12th June, 1804. Bank stock seems to have commanded a high price at this time, as it is recorded in 1792, that "three shares of the capital stock of the Bank of Scotland, with the benefit of the new subscription, were sold at £740, which is £246 13s. 4d. a share. Besides this, the purchaser pays the auction duty, which makes it above £254 for each original share of £1000 Scots, or £83 6s. 8d. sterling." About the same time the new stock of the Royal Bank sold at £240 per cent. The rapid advance of the country in industrial projects, to which we have already referred, seems to have proceeded with more activity than discretion. The political disturbances in connection with the French Revolution, and the renewal of hostilities with France, gave a severe shake to the unduly extended system of credit. Numerous bankruptcies occurred throughout the country. These told heavily on the banks. This was more particularly the case in Glasgow, where the crisis led to the failure of the Glasgow Arms Bank (Murdoch, Robertson & Co.), and of the house of Andrew, George and Andrew Thomson, which had been formed in 1785. The former bank stopped payment on March 14th, with liabilities to the extent of £183,000. These were eventually met in full without interest. The failure of the Messrs. Thomson did not take place until 5th

November. Their debts, which are stated at £64,564 by one authority, and at £47,000 by another, were ultimately paid in full. The private bankers in Edinburgh were greatly pressed for money. Sir William Forbes says, "The check to circulation, and the consequent demands for money, began to be felt by us, as well as by our neighbours, very early in the year 1793, and rose to such an alarming height as put the demands on the house that took place in the year 1788 totally out of remembrance." After referring to the failure of the Glasgow Arms Bank, and to the bankruptcy of "James Dunlop, of Glasgow, who was supposed to be one of the most opulent and cautious men of business in the West," he proceeds to state, that "on the 23rd April, the house of Bertram, Gardner & Co., of Edinburgh, also stopped payment, and to complete the confusion, the four banks of Newcastle, which were known to be opulent, were forced to shut up on the 12th April, owing to their not having had the precaution to keep in readiness sufficient funds to meet the demands that were made upon them. Their stoppage was accompanied by that of a great many country banks in England." Sir William is, doubtless, correct in giving 23rd April as the date of the stoppage of Bertram, Gardner & Co., but it is somewhat curious that their actual bankruptcy did not occur until 10th December following. They were the only bankers in Edinburgh who succumbed at this crisis. Their liabilities were about £145,000, of which their estates liquidated 17s. 6d. per £. The provincial bankers seem to have all stood this trial.

An interesting project, which unfortunately proved abortive, was formed about this time, for the establishment of a new bank at Glasgow. Recognising the superiority

of corporate banks over banking companies, its promoters proposed that it should be erected under Act of Parliament. It was to have been modelled on the constitution of the Bank of England; but, had it been formed, it would probably have more nearly resembled the two Edinburgh Banks. On 12th June, 1793, just when financial affairs were assuming a more satisfactory character, a meeting was held in Glasgow to consider the proposal. The decision appears to have been favourable, and steps were taken to carry out the project. But, whether from want of sufficient support, or on account of the unfavourable condition of commercial affairs in the West of Scotland, or refusal of Government recognition, or other impediment, the scheme fell through. This gives cause for some regret, for had the Glasgow Royal Bank—for so it was to have been styled—been actually established on the high-class footing which was sketched out, there is reason to believe that it might have been very successful, not only in a financial sense, but as fostering legitimate trade, and imparting a high tone to banking in the West of Scotland. It might have done much to mitigate, if not to avert, the consequences of the recklessness and speculativeness which have always been too characteristic of banking as conducted in Glasgow, more especially, but also elsewhere, by banking companies dominated by the mercantile spirit. Nearly, we might almost say absolutely, all the banking disasters in Scotland can be clearly traced to too intimate a connection between the management of banks and the mercantile section of the community. Such a bank as was here designed would have been sufficiently independent.

The continuance of the war with France, and the dread of invasion, were the immediate causes of another crisis in

1797. This was a more general disturbance than that we have just referred to. A continuous and heavy drain of gold to meet expenditure abroad, and loans to foreign allies, had exhausted the bullion reserve of the Bank of England, and curtailed the metallic circulation throughout the country. The wants of the community led to extensive issues of local coins, tokens, and notes for small payments. Year by year the withdrawal of coin from the country had grown worse, prices had risen excessively, and at last the Bank of England was brought within a few days of stopping payment. Roused to action by the representations, often repeated, of the Bank Board, the Privy Council, on 26th of February, directed the Bank of England to suspend payment in specie. On the following day, in accordance with this order, the Bank Directors issued a circular declaring "the affluent and prosperous situation of the general concerns of the Bank," and stating that they would continue "their usual discounts for the accommodation of the commercial interest, paying the amount in bank notes." The suspension of specie payments was confirmed by Parliament, and lasted until 1821.

The news of this important event arrived in Edinburgh on the 1st March, by an express sent to the Bank of Scotland. The demands on all the banks in Edinburgh for specie were continually pressing; but they had hitherto maintained their ability to meet them. Now that access to the ultimate bullion reserve had been cut off, however, it was imperative that they should protect themselves by immediate action of an unusual kind. Sir William Forbes supplies a graphic and interesting account of the proceedings which took place. It was generally believed that "the nation was ruined beyond redemption." The public

banks and private bankers met, and consulted with one another, "for all ceremony and etiquette of public or private banks was now out of the question, when it had become necessary to think of what was to be done for our joint preservation on such an emergency." It was resolved to follow the example of the Bank of England by suspending all payments in specie. The local authorities supported this resolution, and information of the fact was sent throughout the country. Sir William adds, that "the instant this resolution of paying no more specie was known in the street, a scene of confusion and uproar took place, of which it is utterly impossible for those who did not witness it to form an idea." Another contemporary account states that, "in consequence of the measures adopted by the banks, of refusing to give out specie for notes, resolutions have been entered into by a great number of gentlemen to receive bank notes in all payments; for this purpose, subscription papers lay open for several days in the Merchants' Hall. There seems little doubt that the great scarcity of specie in this part of the island is occasioned by the fear of an invasion, operating too powerfully on the ignorant and desponding part of the community. The responsibility of the Banks, joined to a renewal of confidence, from a short trial, will, we doubt not, set all to right very soon. While individuals hoard up, and deprive the banks of their usual supplies, it cannot be expected that they should exchange in their usual way. A little more liberality, in giving small sums to such as they know, we think would be right and proper."*

One of the most distressing features of the situation was the want of small currency. For sums of £1 and upward

* *Scots Magazine*, 1797, p. 212.

the bank notes were still available, but for smaller sums there was no medium of payment. The commonalty, and indeed the whole community, were thereby placed in a most painful situation. Tradesmen could not pay wages, and small purchases could not be made. People resorted to the expedient of tearing £1 notes into halves and quarters, a practice which appears to have been tacitly recognised by the banks. Eventually an Act was passed to permit banks to issue notes of less than 20s. value for a limited period. Under the provisions of this Act, the Bank of Scotland, Royal Bank of Scotland, and British Linen Company (who are specifically mentioned), and all other banks or banking companies in Scotland, in operation, and issuing notes on or before 1st March, 1797, but no other persons, were empowered to "issue notes, bills, or tickets, in the nature of bank-notes, payable to the bearer on demand, for any sum whatever, under the sum of 20s. sterling." The banks were indemnified for having so issued before the passing of the Act; but the powers of issue conferred by the Act were to cease on 15th May following. By a subsequent Act the latter provision was extended to 5th July, 1799. In accordance with the powers thus given, the three old banks, and probably many of the other banks, made an issue of 5s. notes, and the excitement gradually subsided. It does not appear that any other denomination of fractional notes was issued.

The action of the Scotch bankers in suspending payment in specie was, of course, quite illegal, and any creditor could have prosecuted his claim for payment in legal tender. The authority granted, or rather the order given, to the Bank of England, did not extend to other bankers. It is noticeable, however, that notwithstanding

the public excitement which ensued on the promulgation of the resolution, no attempt was made to enforce claims by appeal to the law courts. It would appear, moreover, that while the notes of the Bank of England fell to a discount, the Scotch circulation always maintained its par value. In fact, after the first excitement had worn off, the public accepted the notes of the banks in an inconvertible form as readily as they had formerly done when they were exchangeable for specie on demand. Such a circumstance would be impossible now; and rightly so, for an inconvertible note is essentially an abomination. But it was not ignorance on the part of the public that tided the banks over this dangerous epoch. It was that spirit of true national patriotism which, relying with confidence on the solidity of the banks, recognised that the action of the latter was occasioned by a natural emergency, and called for the support and not for the opposition of their creditors. We now live under more selfish, if more logical conditions; but to the repeated forbearance of our ancestors in regard to the conduct of the Scotch banks, and to their sometimes overtaxed confidence in their respectability, Scotland owes no small part of its subsequent prosperity. Had our forefathers overturned the banking system whenever it went a little agee, the industrial life of the nation would have been subjected to repeated paralytic strokes, which would have dwarfed and stunted the national growth.

CHAPTER XII.

CONFLICT OF JOINT-STOCK AND PRIVATE BANKING—THE COMMERCIAL BANK OF SCOTLAND.

On the first day of the first year of the present century, the United Kingdom of Great Britain and Ireland commenced its career as a consolidated constitutional empire. But, notwithstanding this great step towards peace and civilisation, there succeeded a period of fifteen years, during which the nation was engaged in exhaustive warfare with most of the nations of Europe, with the United States of America, with the native princes of India, and with the colonies and dependencies of European nations in various parts of the world. France, Russia, Denmark, Sweden, Spain, Turkey, and the United States, were all grappled with severally, or in combinations. But this does not indicate the total difficulties of the country. Trade, as was natural in such circumstances, was depressed and almost paralysed; Ireland was openly disaffected; great distress existed among the working-classes; and, in England and Scotland, the corn-laws were made the occasion of serious and widespread disturbances and riots. Taxation was oppressive, and yet so insufficient to meet expenditure, that the national debt was increased to the extent of about £200,000,000. The French War, lasting practically from 1793 to 1815, is estimated to have cost Great Britain £1,427,219,964. These events culminated in 1815, when the power of Napoleon was finally shattered, and the commercial equilibrium was re-established after

the throes of a crisis which, if not of the first magnitude, was widespread in its incidence. The period was not, however, destitute of important features of a favourable character. If industry was depressed, the means for its improvement and extension were considerably developed. Mechanical science continued to advance; so much so, indeed, that the supercession of manual labour by machinery occasioned, in the unfavourable state of the country, a bitter opposition by the working-classes, who imagined that their means of livelihood were being taken from them, and led to serious outbreaks of popular fury. In 1812, moreover, steam navigation was inaugurated by the success of Bell's *Comet* on the Clyde. Thus, in a period of deepest gloom, one of the most potent factors in the development of commerce and the advancement of civilisation, was placed at the service of mankind.

The crisis which closed the period which may be considered to have commenced about the middle of 1797 appears to have been a gradual one, extending from 1810 for about five years. It fell with great severity on the English country bankers—141 provincial banking houses being reported as having succumbed. This was doubtless due in great measure to the unfortunate state of banking legislation, which fostered a plurality of small firms, and prohibited the formation of large joint-stock banks. Scotland did not suffer to the same extent as England, owing to its comparatively backward condition giving scope for its industries within its own borders.

As regards banking, this period was one of much activity. At least sixteen new banks were started; and the Bank of Scotland and the Royal Bank both obtained power to increase their capitals to one million and a half.

Of the new banks, which date from 1802, the most important is the Fife Banking Company, who commenced with a capital of £30,000, and after a career of a quarter of a century, collapsed in 1826, through mismanagement and dishonesty, entailing total loss, and liability for £2,500 per share, on the partners. Another bankrupt born in this year was the Renfrewshire Banking Company. They managed, however, to pull on for forty years, when they made a disgraceful failure. The Cupar Banking Company was also formed in 1802, and is said to have retired from business nine years later; but the dissolution of copartnership did not take place until 1820. The Falkirk Union Banking Company was another unfortunate venture. Established in 1803, with a capital of £12,000, held by fourteen partners, it existed for thirteen years, and was sequestrated on 18th October, 1816. The liabilities were about £60,000. Malachi Malagrowther cites it as one of the few instances of bank failures in Scotland, and states that it "paid up its engagements without much loss to its creditors." Another authority, however, states the deficiency at 10s. 6d. per £. John Wardrop & Co. began business in Edinburgh in or shortly before this year, and dropped out of sight some twenty years later. At this time the affairs of the Dundee Commercial Bank having got into gross disorder, the business was reorganised as the Dundee New Bank, on 14th January, 1802, with a capital of £58,000, in shares of £2000 each, of which one-tenth was paid up. It does not seem to have been a satisfactory concern during its earlier years. Its business was purchased by the Dundee Banking Company in 1838. We should also mention David Paterson of Costerton, who at this time commenced a ten years' banking career which ended in sequestration. The

Kilmarnock Banking Company was also formed in this year.

This rapid extension of banking naturally occasioned anxiety to the Edinburgh banks, who, in order to check it, intimated that they would not receive the notes of any new country banks that might be established. Either as the result of this opposition, or more probably from the circumstances of the country, the growth of new banks was somewhat restricted for several years subsequently. With the exception of a wretched attempt at Dumfries, where James Grace, with the assistance of his son and another partner, started the Dumfries Commercial Bank in 1804, only to succumb four years later with a deficiency of 10s. per £, and of the firm of Belsh & Co. who commenced business in Stirling, in 1804, but failed two years later, only two banking houses, and those not of great importance, were established up till 1809. These were Inglis, Borthwick, Gilchrist & Co., in Edinburgh; and the Galloway Banking Co. of Douglas, Napier & Co. The former firm began business in 1805, and continued for eleven years, when it became James Inglis & Co., who failed in 1834, with liabilities amounting to £23,000. The Galloway Banking Company, established in the following year at Castle-Douglas, was a more important firm; but it had a career of only fifteen years, when it withdrew from business. The banking mania now broke out afresh. In 1809 the Dundee Union Banking Company and the Glasgow Banking Company were started. The former, which subsequently amalgamated with the Western Bank, appears to have been somewhat energetic in the establishment of branches—for, not content with eight offices in the immediate neighbourhood of Dundee, it is recorded that

the experiment of a branch in London was made, though without success. It had a nominal capital of £100,000, of which £60,000 was paid up. It was absorbed by the Western Bank on 31st March, 1844. The Glasgow Bank was an offshoot of the Dundee New Bank, and started with a fully paid capital of £100,000. It afterwards joined the Ship Bank as the Glasgow and Ship Bank, and the conjoined business was, in 1838, merged in that vast collection of banking companies, the Union Bank of Scotland.

The Glasgow Commercial Bank was established in 1810, but it does not seem ever to have risen into much notice, and it ceased to do business in 1820. A more noteworthy production of the same year was the East Lothian Banking Company, whose head office was at Dunbar. It had a capital of £80,000. Malachi Malagrowther speaks of it as a company "whose affairs had been very ill-conducted by a villanous manager." This model banker was William Borthwick, the cashier, whose career forms quite a romance of crime. The bank stopped payment in 1822, with liabilities amounting to £129,191 16s. 7d., which were subsequently met in full.

The Perth Union Banking Company was also established in 1810. It amalgamated with the National Bank of Scotland in 1836. In 1812, the Caithness Banking Company was formed at Wick. It got into difficulties in 1825, and the business was taken up by the Commercial Bank. Another provincial bank was the Montrose Banking Company, established in May, 1814, with a capital of £15,000. It was merged in the Dundee Union Bank in 1829. The private firm of Thomsons & Co. was established in Edinburgh in 1811, but it is probable that they may more properly be classed as financial agents than as bankers.

By far the most important banking establishment which came into existence at this time was the Commercial Banking Company of Scotland. It was formed in November, 1810, and was on the joint-stock principle, although not incorporated until some years later. It has been remarked that it was the first bank not established by public authority which assumed the national designation implied in the addition to its name proper—a practice which has been followed to a very large extent since. It was not long, however, in justifying its adoption of the designation, for it speedily spread itself over the land with much spirit and success. Its comparatively large capital—£3,000,000 nominal, divided into 6000 shares of £500 each, of which £2,250,000, with £450,000 paid up, was issued at first—enabled it to do this with ease. From the outset, it appears to have been designed on a large-minded plan, and to have met a decided want. The old chartered banks were not then, as now, banks of the general public. Their business was for the most part among capitalists—small, doubtless, as well as large, but who, as financiers, were distinct from the body of the people. They occupied, to a considerable extent, a position similar, though of course on a much smaller scale, to that at present held by the Bank of England. They did, doubtless, as occasion offered, deal directly with the general public; but the practice then was, for private individuals to transact their business with private bankers. The private Edinburgh firms were each in close—sometimes, as we shall presently see, too close—connection with one or other of the old banks. This arrangement had sprung up at a very early period, and had been always continued. It saved the banks both from danger and from trouble; for the middle-

men managed all the details of small deposits and discounts, and assisted in extending the circulation; and it paid the private bankers (who were very like the modern bill discounters), for they exacted heavier terms from their clients than they were charged by the banks.

The connection between the Bank of Scotland and the Royal Bank on the one hand, and their respective sets of banking customers on the other hand, became more and more intimate, until partners of private banking firms not only got seats on the bank boards, but actually to a large extent controlled the proceedings of the latter. Business men then began to find it irksome to have to pass their business through the strait gate of the private bank, where toll had to be paid, as the only practical way of obtaining the benefit of the public banks' accommodation; for they believed, rightly or wrongly, that the private banker would refuse at the board meeting to approve of paper which he would readily discount in his own office. It was one great feature of the Commercial Bank to counteract this state of matters; and accordingly it was made a rule of their constitution that no private banker could hold the office of director. This was practically the death-blow to private banking in Edinburgh; for, although many firms continued to exist for years afterwards, the system was ever on the wane. The new establishment was very popular, but it was also very discreet; for while it studied the best interests of the public, it imitated the wisest provisions of the old banks' practice. In short, the founders of the Commercial Bank evinced an amount of true wisdom, which, while it produced great advantage to themselves, was at the same time largely beneficial to the general community. It must not be supposed, however, that the new

bank at once sprang into the position of a compeer of the old banks. It commenced on a scale much inferior to their resources, and although it had public favour, it was destitute of the prestige and influence, and accumulated wealth, which placed the old banks in those days on a distinctly elevated platform.

Another circumstance which aided the progress of the Commercial Bank, was the practice of speculating in the Government funds—which in the depressed state of the country fell to a very low price—indulged in by the old banks. This was a very safe kind of speculation for persons who could afford to lie out of their money for an indefinite time; as, with a declaration of peace, Government securities were sure to rise in value. But the banks were accused of yielding to the temptation to such an extent as to seriously neglect their duties towards trade. The Commercial Bank got credit for devoting due attention to this matter. There is good reason for believing that the competition of this bank had a good influence in bringing the old banks into more direct contact with the public, and in breaking down their rather selfish ideas of aggrandisement. They had relegated to an undue extent those duties to the community which they were erected for the purpose of performing into the hands of private bankers, and were devoting their attention mainly to their own pecuniary interests. From this golden trance they were aroused by the advent of the Commercial Bank. It may have been partly owing to this circumstance that the rate of interest on deposit receipts was raised from 3 per cent. to 4 per cent. at this time.

The estimation in which the Commercial Bank was held during its earlier years is amusingly shown by a

paragraph in a tract* dealing with the joint-stock excitement which culminated in 1825, in which the writer says: "In our own city [Edinburgh], every one admits that all the old chartered banks and private banking companies are just as liberal as any reasonable man could wish, and even the Commercial stripling, which, like all young folks, should at least not be rash, has never yet been accused of a close or niggardly spirit. On the contrary, Firebrass himself told me that he had never heard a single complaint uttered against that bank, excepting one,—and that was for keeping a huge mastiff somewhere about their premises, which, with its vehement nocturnal howlings, broke in upon the balmy slumbers of all the hypochondriacal nymphs and nervous soot-brokers in the neighbourhood."

The relationship which existed between the chartered banks and the private bankers in Edinburgh is graphically illustrated by an incident which occurred early in the year 1816. This was a rupture between the Royal Bank and the private house of Messrs. Ramsays, Bonars & Co., who had for many years been their principal auxiliaries (although previously clients of the Bank of Scotland), two of the partners of the firm being at the time directors of the bank. It appears from the printed documents which were issued during the course of the dispute, that the majority of the directors accused the firm of unadvisedly availing themselves of their long and intimate connection with the bank to obtain, without proper authority, large advances. There never was any question as to the sufficiency of the security, but the irregular manner in which the loans had been obtained, and a supposition that the

* "Three Letters on the Speculative Schemes of the Present Times, and the Projected Banks." Anthony Romney. Edinburgh, 1825.

firm were endeavouring to increase their already considerable influence in the direction of the bank's affairs, were made the basis of an appeal to the proprietors by the board. In their defence the firm state that "the account current of our house with the Royal Bank rests on much stronger grounds than the form of applying for a credit, and obtaining it at any recent date from a board of directors. It rests on the best understanding and usage of near half a century, grounded on the close connection of having been of the greatest mutual advantage to each other for the last thirty-four years. . . . Mr. Ramsay, the senior partner of our house, . . . devoted his whole attention to the concerns of the Royal Bank, and placed it in a train of management that has produced greater prosperity than, we believe, ever attended any chartered company in the same period [1781-1807]—not excepting even the Bank of England—in proportion to their respective capitals." An important point in connection with this matter is, that the money so obtained was understood to be employed in purchasing Government stocks at a low price, with the object of realising them at an enhanced figure. Thus the money was not used for banking purposes. The directors do not seem to have disapproved of this practice in itself, but to have considered that it would have been more advantageous for the bank if the money had been so invested directly for behoof of the bank. In fact, they considered that the firm were diverting to themselves a profit which the bank would have obtained, had they been aware that Messrs. Ramsays, Bonars & Co. were operating on their account to so large an extent. For they were fully aware of the profitableness of this style of investment, and habitually

availed themselves of it. It would seem that the firm had acquired, and held for years, a controlling influence in the direction which was prejudicial to the independent and safe management of the bank. One writer on the subject refers to it as "the thraldom under which the bank has long languished," and points out that the then market price of the stock—185 per cent.—was much below the figure twenty-eight years before.* This latter circumstance he attributes to the exercise of the firm's influence in availing themselves of the use of the bank's funds to an excessive extent; and he asserted that the previous prosperity of the bank, referred to by Messrs. Ramsays, Bonars & Co., was principally due to the improved circumstances of the country. It is evident that such a relationship between banks and their customers is fraught with much danger; but there can be no doubt that the above-narrated incident was the outcome of a long-established and not intentionally evil system peculiar to banking in Edinburgh. Its exposure at this time, and the competition of new joint-stock banks, effected a cure. This result, however, was attended with the rapid decay of private banking. Indeed, it was only in Edinburgh that private banking, pure and simple, was still in active operation. Of course, all the banking companies, other than the incorporated banks, were merely partnerships; but, from the least to the greatest, they were more and more assuming the appearance and functions of public banks, except in the metropolis.

In closing our review of this period (1800-15), it may be advisable to refer briefly to some minor details.

* In August, 1788, a sum of £3592 6s. 8d. of Royal Bank stock was purchased in London by a banker at £209 6s. 8d. per cent., and three years later the price was 240 per cent.

Although, as we have already seen, the Bank of Scotland early essayed the formation of branches, and at the close of last century had several in operation, it was not until 1804 that it opened in Glasgow. This is the more extraordinary, as their great rivals, the Royal Bank, who otherwise abstained entirely from branch extension, had opened in Glasgow twenty years before. To the Bank of Scotland we are indebted for inaugurating the present system of deposit receipts in 1810. This movement was doubtless made in contemplation of the competition of the new joint-stock bank. About this time there were sixty bank offices in Scotland. Interest was usually allowed at from 3 per cent. to 4 per cent., and charged at 5 per cent. The par of exchange between Edinburgh and London was forty days. In 1813 the British Linen Company obtained —despite great opposition on the part of the older banks— a supplementary charter authorising an increase of their capital from £200,000 to £500,000; but, although they were to all intents bankers, the legal right to be so considered was still withheld from them.

We may fitly conclude this chapter by referring to the inauguration of savings banks, which occurred at this time. It is understood that the first savings bank in this country was established in Edinburgh in 1814; but details regarding it are wanting. On 19th June of the succeeding year, a similar establishment, which was styled the Provident Bank, was formed in Glasgow. Thus was laid the foundation of a system for improving the condition of the poorer classes, which has since successfully developed to such an extent as to supply no small portion of the national resources.

CHAPTER XIII.

MURDER AND ROBBERY.

To persons who are not directly interested in, or, to speak more correctly, who do not devote attention to, economic subjects, the history of banking sometimes seems rather a dry subject. Unlike political history, it does not present an absorbing series of national and world-wide convulsions, involving wholesale slaughter and indescribable misery, and producing innumerable instances of heroism and intellectual greatness. Even ecclesiastical history supplies thrilling narratives of cruelty and oppression, which rival romance; and, at all times, enlists the liveliest enthusiasm in the battle of the creeds. The records of geographical and scientific discovery, are also more powerful in riveting the attention and exciting the imagination. But, if our subjects deal in the main with the peaceful progress and economic well-being of nations, and are outside the realm of the startling and the sanguinary, they do at times supply material for stories which might interest the most devoted students of Newgate calendars and detectives' experiences. As illustrating this phase of banking, we shall narrate two conspicuous instances of crime which occurred in the early part of the present century, merely premising, that the full details of the first story were never judicially established.

Late in the afternoon of the 13th November, 1806, a young Edinburgh sailor, whose ship had come into Leith, started from the latter town to visit his mother and sister

in the Netherbow. Although described at a later period as "a very industrious good man," on the present occasion he displayed that elasticity of conscience which is too frequently shown by people of the present time in their dealings with the revenue departments. He was taking home "a small present" from foreign parts, of a contraband description. Leith Walk, which formed the main part of his route, was very different then from what it is now. Its location and extent were precisely the same, but it was dark and desolate. As he walked on, he saw two men before him. One was tall, and carried a yellow bag; the other was dressed in black. The men were not together. The last mentioned was "dogging" the other—crossing from one side of the Walk to the other, as occasion might require, to avoid notice. So steadily did he pursue his game, that he never observed our sailor lad behind him. The latter's conscience immediately devined that the carrier of the bag was a smuggler, who was being tracked by a custom-house officer. His own guilt, unfortunately, distorted his vision, and enforced on him such precautions for his own safety, as prevented him from detecting—perhaps preventing—a diabolical crime.

The first man was no smuggler. He was Wm. Begbie, messenger of the British Linen Company, and was, in accordance with his usual practice, carrying notes of the various banks, to the value of £4,392, from the Leith branch to the head office, to be exchanged next day. There is reason to believe that the man who was following him was James Mackcoull, a London villain of the blackest dye; but of such dexterity, that even in his grossest and most daring crimes, he almost invariably escaped detection. He seemed to find the comparatively unsophisticated people of Edin-

burgh as good game; for he paid them repeated visits, which only terminated when his quarters got too hot for him. On the present occasion he had lodgings in New Street, Canongate, but usually spent the day among the Leith taverns. He was now on his way home; but, whether or not he had previously planned the scheme, he turned his present opportunity to the uses of his profession, which was that of pickpocket, thief, receiver of stolen goods, and vendor of stolen bank notes.

The three *dramatis personæ*, at respectful distances from one another, proceeded up the Walk and up Leith Street. Here Begbie appears to have at once crossed Princes Street, to go up the North Bridge. Mackcoull was too great a professor of the light-fingered art to seem to follow. The east end of Princes Street, although then a quiet place as compared with its present bustle, was not a spot for privacy. The Theatre-Royal stood where the General Post Office now stands; and Shakespeare Square, with its roystering taverns and oyster cellars, was built around it. Instead of following his victim directly, he turned along Princes Street, in front of the Register Office. It may be that his guilty thoughts pictured a tragic scene, of which he might well be aware from his frequent visits to the city, enacted within a stone's throw of the spot where he stood and gazed around, to make sure he was unobserved; for in that thoroughfare, which is now called West Register Street, but which then was a Kirk Lane, a tutor had cruelly murdered his two young charges. He thought himself unseen—although he was a licentiate of the Church, it may be presumed he did not think of his Maker's eye—but his deed was witnessed from the Calton Hill, the view being at that time uninterrupted by buildings.

Taken red-handed, he was lynched on the spot, which, after him, was named Gabriel's Place.

When our sailor friend observed the "custom-house officer" look about him, "he hove-to, and watched him" (to use his own words), as he feared he might be looking for him. However, the "officer" shortly followed his victim up the bridge, and both were soon lost to sight in the darkness; for it must be remembered, that the streets were then very ineffectually lighted with oil lamps. The sailor then slowly pursued his way, which lay in the same direction, and saw nothing of the two men. He reached the High Street, and turned down towards the Canongate. When he came to Tweeddale's Close, in which the office of the British Linen Co. was situated, he was surprised and alarmed by seeing the "custom-house officer" run out of the entry with something under his coat. In the excitement of the moment, he seems to have lost his presence of mind; for he could not afterwards tell which way the "officer" went. Rushing to his mother's house, which was close at hand, he stayed only to leave his contraband present, which had so disturbed his peace of mind, and hastily returned to his ship, imagining he had narrowly escaped detection of his smuggling. Next day the city learnt that Wm. Begbie, messenger of the British Linen Company's Bank, had been fatally stabbed in Tweeddale's Close, and robbed of bank-notes to the value of £4392. Fear of the discovery of his own illegal doings seems to have sealed the sailor's lips. His ship left Leith within a few days, and he did not return to Scotland for years. Various apprehensions were made, but the guilty person was never identified. Later investigations tended to point out Mackcoull as the perpetrator; but his death appears to have interrupted the

successful prosecution of these inquiries. The large notes of which Begbie had been robbed were subsequently found in a hole in a wall in the grounds of Bellevue. It is supposed they were placed there by Mackcoull on his return to Edinburgh—he had left his lodgings in New Street immediately after the murder occurred—when he felt himself unable safely to dispose of them for value.

Some years after the sad event we have just narrated, a still more extraordinary, though happily less horrible, crime was perpetrated on the banking community. Early in May, 1811, three travellers arrived in Glasgow. The oldest, and seemingly the ruling spirit of the party, was a man under fifty years of age, of average height, stout, with ruddy round face, in which were set large, sharp, dark eyes. He gave his name as James Moffat, and is said to have been "somewhat like a gentleman." Neither of his companions was so striking in appearance. The more respectable-looking of the two was about Moffat's height; the other was thinner and taller, and was dressed like a mechanic. They answered respectively to the names of Stone and Down. Moffat said they were his cousins. The three had left London by post-chaise, and finished their journey by mail coach. Presenting themselves at the house of a widow, named Stewart, who kept lodgings at the Broomielaw, where she lived with her son and niece, they secured rooms for a fortnight, and seemed to live a quiet and retired life. They early contracted a habit of leaving the house about ten o'clock at night, for about a couple of hours. This, it would seem, was at that period a very unusual time for citizens of St. Mungo to be abroad; but, our friends being Londoners, and seemingly of irreproachable habits, no surprise was excited. In these cir-

cumstances, it can hardly be wondered that the mysterious disappearance of a small chamber organ from the house should have been attributed by the good widow to some inscrutable dispensation of Providence, which had no connection with her respected English guests. We do not mean to say they stole it. Such an insignificant article could not excite their cupidity. But, having a use for its pewter pipes, or rather for the metal itself, they simply did as all great men have done since the world began—they made use of the materials that lay readiest to their hands. However, at best, this is a mere minor part of the business.

As our readers will suspect the character and intentions of our heroes, and as they are already acquainted with the most important member of the party, it is as well, perhaps, that we should introduce each *in propriâ personâ*. James Moffat, then, was no other than the old custom-house officer who gave the sailor boy such a fright, and did worse damage still, if all tales be true, to his own soul and poor Begbie's body on the same occasion. He had formed a great plan, and taken to himself two other spirits, who, if less wicked than he, were only so from want of similar natural talents. Their real names, or those at least by which they were principally known to the police, were Harry French and Houghton (or Huffey, as he was colloquially termed) White. They were as precious a pair of villains as remained unhanged. Indeed, White (the "Down" of the present episode), had been specially rescued from the hulks, for the purposes of the present expedition, on account of his mechanical knowledge. The great design which Mackcoull had elaborated was the robbery of the Glasgow Branch of the Paisley Union Bank.

The office which formed the subject of the trio's

attentions was situated in Ingram Street, occupying the street floor of a corner house, there being separate warerooms above, and cellars below. It consisted of two rooms, in the inner of which was a vault or closet, with an iron door, which formed the strong room of the branch. Many a time, during May and June, had the three robbers reconnoitred the premises—more particularly during the silent time after ten o'clock at night, when the worthy and unsophisticated inhabitants had retired to rest. At first they had thought that a fortnight would suffice to effect their purpose; but the keys which they had procured from a confederate locksmith in London would not suit. The old-fashioned simple locks baffled burglars, who were accustomed to more scientific guards, so Mackcoull set off for London (under pretence of going to Liverpool), to have keys made under his own supervision. White manufactured a key from the pewter pipes of the musical box, probably to get the impression of the wards of the locks. After Mackcoull's return, a little adjustment of the keys seems to have given complete command of the premises. It was now the beginning of July, and, according to notice they had previously given, they left their lodgings, with the ostensible object of going to Bristol. Where they did go does not appear. It would seem, however, that they purposely delayed the execution of the robbery until the Fair week, when the presence of a heterogeneous crowd of questionable characters might serve to divert attention from them.

On Saturday, 13th July, 1811, business went on as usual at the branch office. Four o'clock came. Mr. Likely, the cashier, and other officers, had taken their departure; and Mr. Hamilton, the teller, handed over his cash to John Thomson, the porter. On the arrival of a

box of retired notes, amounting to about £4000, from the bank's correspondents in Edinburgh—Sir Wm. Forbes & Co.—the porter locked it, with the teller's cash, into the safe, shut up the office, and took the keys to the house of Mr. Templeton, the manager. We have here a charming glimpse of bank office management in the olden time. One does not know whether most to admire the mutual confidence displayed by the staff from the highest to the lowest, or to envy the social conditions that permitted the total absence of supervision in the transference of cash. Sunday passed, no doubt with prolonged doctrinal disquisitions, slightly interspersed with discordant tunes, and added to by domestic catechisings in semi-solitary confinement, amid repressed desires for the return of Monday. The morning came at last, and John Thomson got the bank keys, and opened the office as usual. He unlocked the safe to get out the teller's cash, and then he witnessed a spectacle which must have made him feel "all-overish." The lid of the Edinburgh box was broken, and the remittance had disappeared. The cash drawers had been forced, and their contents abstracted. Everything in the shape of cash, including some base coin, was gone. The bank since Saturday was *minus* £19,753 4s.

Sunday morning had been a busy time with the interesting trio; but it is left to the imagination to picture their *modus operandi*. They had been seen in the Gallowgate on Friday the 12th July—the day preceding the robbery—but there is no other record of their movements, until after the great event was accomplished. A certain David Clachar, who was early astir, saw the three "sitting on a dyke at the corner of Stirling's Road," not far from the bank. They had a large bundle with them, from which

they took a parcel of notes, and counted them. They also counted silver coin; and then packing up, proceeded towards the heart of the city. There they procured, with some difficulty, a post-chaise, in which they left for Edinburgh, urging the postboy to speed, on the plea that Mackcoull had a brother at the point of death, whom he earnestly desired to see. Posting thus, early on the Sunday morning, and changing horses at Airdrie and Uphall, they drove into Edinburgh. They dismissed the chaise at the west end of Princes Street—just where Dean Ramsay's monument now stands—being anxious to throw pursuers off the scent. And pursued they speedily were; for no sooner was the news of the robbery circulated, than Clachar and others put the bank authorities on the trail. But the robbers had a good start, of which they did not fail to avail themselves. They were not the sort, however, to neglect their personal comfort. They had regaled themselves, at each stage, with drinking and smoking. Mackcoull, who was well acquainted with Edinburgh, led the way to M'Cousland's St. Andrew Tavern in Rose Street, which he had formerly frequented when he lodged in that street. There they dined—no doubt sumptuously. During afternoon church services, they appear to have slipped unnoticed, through the deserted streets, to the Black Bull Inn, in Leith Street, then the great centre of the mail coach routes. There they hired another chaise, and proceeded by Haddington and the usual stages to London, taking four horses after they crossed the Border.

Their pursuers followed them with great activity; but the necessity for inquiry at every stage gave the villains more than the full advantage of their start. Mackcoull and his associates got to their villainous haunts without

interruption. The London police, however, succeeded in arresting French and White; but, by a most extraordinary system of negotiation, Mackcoull managed to save himself, and secure about £8000 of the booty. Through his wife he negotiated a treaty with the authorities, by which he agreed to give up what was left of the money, on condition that the offence would be overlooked, and that his accomplices would be saved from the sentence of death, to which they were liable for escaping from the hulks. The amount he gave up, however, was only £11,941. He had the audacity, some years later, to come to Leith and purchase bills on London with the stolen notes, and, when arrested, to sue the Paisley Union Bank for the amount of the bills then taken from him. Strange to say, after prolonged litigation, he very nearly won his case. At last, however, his guilt was fully established at the concluding sederunt of his case; and he was arrested, tried, and condemned to death on the criminal charge. A reprieve was granted, however, and he died in the county jail in Edinburgh, on 22nd December, 1820, after enduring a period of great mental agony. White was afterwards executed for robbing a mail coach.

CHAPTER XIV.

FROM WAR TO CRISIS—DECAY OF LOCAL AND DEVELOPMENT OF NATIONAL BANKING.

THE period of about ten years, from the close of the Napoleonic wars in 1815 to the great crisis of 1825-6, which forms the subject of the present chapter, was one of almost profound peace. During the first year, the bitter effects of the terrible international struggle which had convulsed the world were severely felt in Britain. Commercial enterprise was in a state of great prostration; provisions were scarce and dear; and the sufferings of the labouring classes broke out in disturbances which were not always quashed without bloodshed. In 1817, however, symptoms of improvement manifested themselves. Commerce revived, the national industries showed greater signs of life, and financial ventures were indulged in. Steamboats began to ply on all the great rivers; and steam power was applied to printing and manufactures. Foreign loans, also, became popular, and much British capital was thus profitably employed in ameliorating the distresses of the European nations. In 1816, the Government issued a new silver coinage. This had become an absolute necessity; so much so, indeed, that it is recorded that, in some districts, the greatest surprise was manifested at the liberality of the Government in supplying for general currency beautifully-executed "medals" in place of the smooth discs in circulation. Early in the following year, the gold coinage was also renewed; and in the

autumn, the Bank of England partially resumed payment in specie. Before the death of George III., in 1820, considerable advances had been made in the national prosperity. Some great public works—such as the Edinburgh and Glasgow Canal in Scotland—were completed; ocean steam navigation was developed; and a healthy amount of national industry was displayed. The two great questions of Free Trade and Parliamentary Reform were much agitated at this time.

The year 1820 would seem to have been the turning point of the period, when the feverish stage commenced. In the middle of that year a great commercial and financial crisis occurred in Ireland, whereby private banking—which had, for the most part, been conducted on most unsatisfactory principles — was virtually extinguished. Some twenty banking and note-issuing firms were swept away. This crisis did not, however, extend to Britain. There, enterprise and industry were proceeding apace, in buoyancy and hope. In 1821, the Bank of England was permitted fully to resume specie payments; and, during the three succeeding years, the condition of the country was one of much prosperity, combined with which, the spirit of speculation was largely developed. After that came the inevitable crisis.

As regards banking in Scotland, during the greater part of this period, the leading characteristics would seem to have been, the continued development of the large banks, and the withdrawal or failure of purely local establishments. Previous to 1825, only two new firms commenced business. The first of these was the Exchange and Deposit Bank of John Maberly & Co., with offices at Aberdeen, Montrose, Dundee, Edinburgh, and Glasgow.

They were properly an English linen manufacturing firm, and in 1818 they established themselves as bankers in Scotland, with the object of profiting by the high rate of exchange on London. This entrance on the Scottish field was by no means relished by the native bankers; but it is probable that the public profited by it. This will be understood when it is remembered that the usual par of exchange was 40 to 50 days; whereas Maberly commenced with 20 days, and latterly reduced the period to 10 days. The result showed that the intrusionists overreached themselves in adopting a scale which has only in recent years been naturally attained to; but there can be little doubt that their opponents had erred on the side of their own interest. After a career of fourteen years as bankers, Maberly & Co. succumbed in 1832; but it does not appear whether their failure is to be attributed to the banking or to the manufacturing business. The liquidation was conducted under an English fiat of bankruptcy, the debts in both departments of the business amounting to £149,082, on which a dividend of 4s. 5d. per £ was paid. As the assets are stated to have realised £76,669, it would seem that the expenses of liquidation were very heavy. The second bank to which we have referred was the firm of Hay & Ogilvie, who commenced business in Lerwick in 1821, under the designation of the Shetland Bank. They were also engaged in trade, which part of their business was, no doubt, previously established. They appear to have ceased issuing their own notes in 1827; but for what reason, is not stated. They continued for twenty years, when they made a bad failure. One of the partners, John Ogilvy (the name is thus printed in the notice, although differing from the spelling in the official style of the firm),

died in 1829; and the failure, according to one authority,* occurred in 1830, with debts, both as merchants and bankers, amounting to £60,000, on which a dividend of 6s. per £ was paid. The date is otherwise given† as 1842, the liabilities as £140,000, and the dividend in sequestration as 5s. per £, with the prospect of a little more. Perhaps they resumed business, after a composition, in 1830. From this time to the closing year of the period, bank extension consisted entirely in the opening of branches throughout the country. The Commercial Bank, and the British Linen Company, displayed the greatest amount of activity in this respect.

A marked feature of this period was the disappearance of a considerable number of banks—the exits being pretty well spread over the ten years. In 1816, the Falkirk Union Bank, with liabilities to the amount of £60,000, was sequestrated. The number of partners was only eight. Malachi Malagrowther states that they met their engagements without much loss to their creditors; but it is probable he had not asked the latter for their opinion, seeing the total dividend did not exceed 10s. per £. However, it was a small concern. In 1820 a little known establishment, called the Glasgow Commercial Bank, withdrew from business. Towards the close of the next year the firm of Sir William Douglas, Bart., & Co., carrying on business at Castle-Douglas, under the style of the Galloway Banking Company, was also wound up. It had existed for fifteen years. It may be presumed that its liabilities were met in full. At this time, also, the Kilmarnock Banking Company, who started early in the century, merged their business in that of Hunter & Co.,

* Boase, 2nd Ed., p. 364. † Somers, p. 107.

Ayr. In the following year (1822) a very unfortunate failure occurred. The East Lothian Banking Company had been formed at Dunbar in 1810, with a capital of £80,000, in 400 shares, held by twenty-seven partners. It would seem that the bank never did well. This was principally owing to the disreputable conduct of the cashier (or manager), William Borthwick, who, after involving the bank in much bad business, absconded with £21,000, on 10th April, 1822. Messrs. Forbes & Co., of Edinburgh, advanced £100,000 to assist the liquidation, pending the realisation of the assets and a call of £250 per share. The liabilities amounted to £129,000, and the assets to £63,000; but the partners paid in full. In connection with this affair there is a rather mythical-looking account of a design on the part of Borthwick to kidnap one of the directors and the law agent—who were probably of too inquiring a disposition for his taste—in order to further his private designs. In 1824 the Edinburgh firm of John Wardrop & Co. disappeared from the list of bankers.

The year 1825 is notable for the establishment of four new banks, all of which were successful. One of these was the Aberdeen Town and County Banking Company, which is one of only three provincial banks surviving from the multitude which have been started. Let us hope that no amount of charming on the part of the large banks will induce these establishments to forego their independence. The roll of banks in Scotland is small enough; it can hardly be for the public advantage to have competition further narrowed; and the advantage to the shareholders, so long as their business is prosperous, of amalgamation, is probably not sufficient to counterbalance

the chances they would forego of development into national banks. The Aberdeen Town and County Bank (now the Town and County Bank, Limited) started with a capital of £150,000, held by 470 partners. Another bank established in this year was the Arbroath Banking Company, with a capital of £100,000 subscribed, and of £40,000 paid. It amalgamated with the Commercial Bank of Scotland in 1844. A third was the Dundee Commercial Bank (the second, and more fortunate, of that name), with a capital of £50,000. It retired in 1838, in favour of a newly-organised company—the Eastern Bank of Scotland —which was designed to carry on a more extended business.

The fourth was the now well known and powerful establishment, the National Bank of Scotland. From the outset, it appears to have been designed on a large scale. Indeed, it was the result of the combination of no fewer than three distinct banking companies projected in 1824. The first of these seems to have been the Scottish Union Commercial Banking Company; but it was speedily followed by the Scottish Union Banking Company, and the National Bank of Scotland, the prospectuses of all three being before the public at the same time. The advertisements of all of them state that the subscriptions were rapidly filling up; but it seems to have become evident, even to the enthusiastic promoters, that such an accession to the number of Edinburgh banks was unadvisable. The Scottish Union and the National made what they termed "a treaty of union," whereby they were to unite their interests and divide the prospective appointments to their mutual advantage, under the designation of the Scottish National Banking Company. They then held

out the olive branch to the Scottish Union Commercial; but their advances were not reciprocated. However, the united companies were not to be so easily baffled in their design of preventing rivalry. Finding they could not win the promoters to their side, they made a seductive attempt on the subscribers. On 1st January, 1825, the united companies published a long advertisement, in which they reflected warmly on the "insidious" conduct of their rivals, and threatened that, if the Union Commercial Company would not join them, they would advertise their readiness to receive individual subscribers to that company into their concern. Whether as the result of this threat, or from the prevalence of reasonable counsels, the two parties came to an agreement within a few days, and announced the "union of all of the new banking companies of Edinburgh" as the Scottish National Banking Company. As the subscription lists were closed on 8th January, there seems to have been no difficulty in completing them. Further delays occurred, however, and it was not until 21st March that the company got finally started as the National Bank of Scotland. The nominal capital was £5,000,000 (now fully subscribed) in £10 shares. At first only £500,000 of the capital was issued. It seems to have at once commenced a branch system, by the establishment of offices in nine towns, seemingly rather selected from their geographical positions as embracing the whole country, than from their business importance. In 1833 they had twenty-four branches; and a continual increase has now brought the number up to ninety-five. In 1831 the company obtained a Royal charter of incorporation, granted under the pernicious principle of unlimited liability, which at that time commended itself to statesmen

as superior to the ancient principle of limitation, which is now again held, under the light of terrible experience, to be the proper constitution of corporations.

Towards the end of 1825, another attempt was made in Edinburgh to organise a new bank.* It was to be on a different footing from the National Bank, as it was not intended to extend its operations outside the metropolis, but to conduct it as the Glasgow and other local banks were then managed; but the events of the closing months of the year put an end to the project.

The earlier part of 1825 witnessed the climax of the speculating spirit which had been working with ever-increasing excitement since 1820. The opening of the Spanish South-American colonies, by the achievement of their independence, to British enterprise, had stimulated industry, and had occasioned a mania for loans to the new States. These loans are estimated at fifteen millions. At the same time, bubble companies were rampant, and gambling in their shares was excessive. The economic heresy, called the mercantile system—which proceeded on the assumption that the wealth of a nation was co-ordinate with its command of the precious metals—exercised an evil influence at this time. It was thought that the boundless natural stores of gold and silver in the Spanish colonies had only to be tapped by British commerce to secure the wealth of the fortunate adventurers. Lord Lauderdale stated, that the schemes subscribed for amounted to two hundred million pounds. From a statement made at the time, it would seem that "the accumulation of capital which has been progressively going on, since the conclusion of the last peace, and the

* *Scotsman* newspaper, 26th November, 1825.

difficulty of now investing money to advantage, has given rise within these few months to the formation of numerous trading companies throughout the country, with capitals of from £25,000 to half-a-million. In Edinburgh we have a new Banking Company, a new Insurance Company, a Wine Company, a Porter Brewery Company, an Equitable Loan Company, a Whale-fishing Company, Glass and Iron Manufacturing Companies, Cotton-spinning Companies, and a variety of others which it would be tedious to enumerate. No sooner was the prospectus of a new scheme laid before the public, than capitalists and speculatists ran eagerly and filled up the shares; and it was no uncommon thing to see these shares, in the course of a day or two, selling at a high premium. Much money was lost and won upon this kind of lottery."* Of course, in London speculation was on a still greater scale. "It is estimated that the different new schemes on foot in London amount to 114, and the capitals to be more than £105,000,000."

These are enumerated as follows, viz.:—

20	Railroads, with capitals amounting to	...	£23,950,000†
22	Banking, Loan Investment, &c., „	...	36,760,000
11	Gas Companies, „	...	8,000,000
8	British and Irish Mines, „	...	3,600,000
17	Foreign Mines, „	...	11,565,000
9	Shipping and Dock Companies, „	...	10,580,000
27	Miscellaneous, „	...	11,070,000
114	in all.		£105,525,000

* *Scots Magazine*, March, 1825. The bank alluded to above is, no doubt, the National Bank of Scotland. The insurance company might be the Scottish Union (now Scottish Union and National) Fire and Life, but is, more probably, the Standard Life; but the Thistle, Equitable, and Commercial Marine were also local insurance projects of the time. The Wine Company of Scotland continued to exist until 1853, when the business was transferred to a private firm; and the pawnbroking establishment spoken of occupies a respectable place, at the present time, on the local share list. Other companies alluded to are the Edinburgh, Glasgow, and Alloa Glass Company, Shotts Iron Company, Scottish Brewing Company, Scottish Wool Stapling Company, Waterloo Hotel Company, and Caledonian Dairy Company.

† This item is given as £13,950,000 in the original, but is, doubtless, a misprint.

The turn of the tide took place in the month of April. Prices of stocks and shares began to decline, calls were made on shareholders, the Bank of England bullion was ebbing away, and want of confidence began to manifest itself. In the three months, April, May, and June, nearly £3,000,000 of bullion were exported, mostly to the Continent, and it was estimated that the demands for exportation had reduced the stock of bullion in the Bank from £12,000,000, on 1st January, 1824, to about £4,000,000 at the beginning of August, 1825.* It was not, however, until later in the year that palpable evidences of a crisis showed themselves. Some private firms succumbed, then a few of the country bankers suspended payment. Distrust became general; the panic seized London, and every one sought to save himself. On Saturday, 3rd December, rumours of difficulties in the firm of Pole, Thornton & Co., who, in addition to having an extensive London banking business, were agents for a large number of provincial and Scottish banks, gave point to the excitement. The Bank of England advanced £300,000 to the firm, and the catastrophe was deferred. But on Monday the 12th, no longer able to stand the strain on their resources, Pole, Thornton & Co. stopped payment. Then the panic rose to a crisis. Stocks were unsaleable, and even Government Securities were not looked at. Every one who had coin hoarded it. For two days—12th and 13th December—the financial and commercial world was in a state of paralysis. On the 14th, the Bank of England came to the front. The directors gave assistance right and left, to all who produced fair security. The crisis passed, and business men breathed more freely. The dread of universal ruin

* *Scotsman* newspaper, 3rd August, 1825.

was past, and they began to estimate the resources of their neighbours with some degree of calmness. £1 notes of the Bank of England were sent into the country, to supply the want of specie; and affairs gradually assumed a quieter phase. The results of the crisis had, however, been very serious. Many bankruptcies had occurred, including some London and many provincial banks. It would appear, however, from the estimates of liabilities and assets, that the English provincial banks who failed had not been in so bad a condition as might have been expected. Subsequent investigation showed, moreover, that wherever the error lay, the note issues had comparatively little to do with their position.

In Scotland, as usual, the crisis had comparatively little effect, although the subsequent depression was severe and lasting, as was strikingly indicated by the large amount of heritable property which was thrown on the market within a few months after the crisis. For the most part, business went on as before. The Edinburgh banks seem to have experienced no discomfort. An exception must, however, be made in regard to Glasgow and the West of Scotland. There, if panic did not actually break out, much uneasiness was felt in commercial circles. Contemporary accounts represent the state of trade and manufactures as very bad. Several of the cotton mills were put on half-time, and others were verging on the same condition; while the country weavers were in vain seeking employment. The Bank of England sent a commission to Scotland, under which a sum of £300,000 was to be advanced in Glasgow. It was believed at the time, that the applications for assistance from this body were very few; and the action of the Bank was, in some

quarters, regarded somewhat ungraciously, with true Glasgow independence. The banks were not affected; indeed, it is stated that they, and especially the Royal Bank branch, under the management of Mr. J. Thomson, were very efficacious in allaying the threatened danger. But, although banking in Scotland, as a whole, escaped very easily, it was not unscathed. Three banks succumbed. One of these was the Caithness Banking Company of Wick, whose business was taken over by the Commercial Bank. Another was the Stirling Banking Company, with liabilities exceeding a quarter of a million sterling; but it paid in full. The worst case was that of the Fife Banking Company. It had a capital of £30,000, and might have done well. It was, however, grossly mismanaged, got into difficulties during this crisis, and stopped payment in 1826. The loss to the shareholders was enormous. Fourteen outstanding shareholders paid £5500 per share beyond the original amount. The liabilities were met in full.

CHAPTER XV.

THE SMALL NOTE SCARE OF 1826.

In consequence of the severe financial crisis which darkened the close of the year 1825, the Government resolved on radical alterations in the banking legislation of the United Kingdom. In the King's Speech on the meeting of Parliament on 2nd February, 1826, the principal place was occupied by references to the embarrassments which had occurred in the pecuniary transactions of the country since the close of the last session. His Majesty also advised the devising of "such measures as may tend to protect both public and private interests against the like sudden and violent fluctuations, by placing on a more firm foundation the currency and circulating credit of the country." The crisis was almost entirely confined to England; but the Government contemplated a movement towards the assimilation of the paper currency of the three kingdoms. Their first task was to introduce changes in the banking system of England. An almost insuperable obstacle, however, presented itself in the shape of the special privileges of the Bank of England. As far as the public were concerned, the worst of these privileges was the prohibition of any other company or partnership consisting of more than six persons carrying on the business of banking in England. This provision was enacted by a clause in an Act passed in the reign of Queen Anne, 1708. As then understood, the business of banking involved the issue of notes; and this was always considered, until 1844,

as a distinctive characteristic of bankers. Technically, the prohibition was directed only against the issue of notes payable on demand, or for any time less than six months; but in the then circumstances of banking, it effectually precluded the establishment of joint-stock banks other than the Bank of England. The effect of this had been most pernicious, as it checked the growth of strong banks, and encouraged the formation of a multiplicity of weak ones. The Government entered into negociations with the Bank of England for a relaxation of this prohibition, and eventually obtained their reluctant consent to an arrangement whereby joint-stock banks, consisting of any number of partners, might be formed, with power to issue notes as bankers outside a radius of sixty-five miles from London. This provision was availed of to some extent; but it was not until the re-enacting and explanatory Act of 1833, that full advantage was taken of the power granted. The branch system of the Bank of England was also an outcome of the proceedings of this time, special powers having been conferred by Parliament on the bank directors to delegate their powers of management to agents. Another important change effected, was the suppression of bank-notes under the value of £5. The Government appear to have been convinced that note-issuing was essentially connected with the late crisis. As we have already shown, there was not sufficient reason for this belief. We do not mean to assert that the provincial note issuers were sufficiently trustworthy; but it appears from the state of the paper currency at the time, that there had been no over-issue of notes. The Earl of Liverpool, indeed, on behalf of the Government, stated that, as estimated by the returns of stamps used, the issues had

been increasing to a great extent; but the statistics compiled of the actual notes in circulation showed a considerable decrease in all the years to which he referred, with the exception of 1825. In that year, however, the amount was but little above the point at which it stood several years before. It was the weakness of the banks, as prescribed by Parliament in favour of the Bank of England, combined with injudicious banking advances, that led to the numerous failures of provincial bankers in England. The enlargement of the powers of banking, without the suppression of small notes, would have been not only sufficient in itself, but would have been more effectual in building up the shattered fabric of the deformed system of banking with which Parliament had afflicted the English nation; for banks would have been enabled to extend their operations into quarters where, without the use of small notes, banking would be unprofitable.

The Government, however, decreed the abolition of bank notes under £5. Before the English Act—limiting, and, after a certain time, prohibiting, such issues—was actually passed, Lord Liverpool announced that it was intended to introduce a similar measure with regard to Scotland and Ireland. In this, however, the Government were reckoning without their host. When the intelligence reached Scotland, the *Nemo me impune lacessit* spirit was at once aroused. The proposal was almost universally denounced as an infringement of the rights of the nation, and as injurious to its interests. Sir Walter Scott's magic pen was enlisted in the cause. His celebrated letters, under the *nom de plume* of "Malachi Malagrowther," although taking too roseate a view of Scottish banking

experience, gave point to the national excitement, and undoubtedly tended greatly to focus the opposition. At the same time, they excited the most extraordinary criticism in Parliament and elsewhere, as calculated to foster rebellion. The agitation was carried on warmly at county meetings, where speeches in favour of the bank-note issues were made, and resolutions unanimously passed disapproving of the proposed change. As showing the thoroughly convertible nature of the notes, Mr. Gibson-Craig stated, at a meeting of the county of Edinburgh, that "It was only the other day that Mr. Maberly's house here had collected £30,000 of Edinburgh bank-notes, and presented them for payment, when gold was tendered in exchange. He said this was not what he wanted, but bills on London; but he was told that the promise on the face of their notes was to pay gold, which they would pay, and nothing else."* He also referred to the bank failures which had occurred, and showed that the note-issues were in no way connected therewith, and that the country had suffered no loss. The position of the Scottish banks was also warmly defended in a number of pamphlets which appeared at the time of this attack on one of their most vital characteristics. Indeed, the excitement produced by the well-meant but misdirected attentions of the Government was the means of producing in Scotland, for the first time, anything which could be called financial literature. The Scottish newspaper press, with a few exceptions, strongly advocated the retention of the small-note issues. The Scotch and Irish members strenuously opposed the intended legislation, and successfully insisted on the appointment of a committee of each House of Parliament

* *Edinburgh Magazine*, March, 1826.

to inquire into the utility of small notes in Scotland and Ireland. The committees examined a number of witnesses, and reported against the proposed change. On the 8th of May, the Government confessed that they had been convinced of the advisability of leaving the note-issues of Scotland and Ireland on their present footing.

In looking back on this episode, while one may smile at the intensity of the excitement, and especially at its peculiarly Scottish national character, as seeing, in an honest endeavour of the Government to improve the currency system, an instance of Southern treachery, one cannot but recognise the fact that the people were right, and that it was well for Scotland that the intended change was prevented. The paper currency of Scotland had been of the greatest service in furthering the industries of the country. The total amount of loss by the note-issues of defaulting banks had been surprisingly small. In point of fact, the banking system of Scotland had worked remarkably well, and there was positively no occasion to make any legislative alteration in it, as far as the nation itself was concerned. At least, any changes which might have been advantageously introduced had no connection with the system pursued, or with the state of the paper currency. The object of the proposed measure was to secure uniformity in the currency of the three kingdoms. This was a desirable enough object, if it could have been attained without undue sacrifice. The price the Scotch and Irish people were asked to pay was, however, too much, seeing they were called on to sacrifice an essential portion of their existing system, without obtaining any benefit in return. At the present day the circumstances of the case are somewhat altered. Even as late as 1826, the use of a

paper currency, which had been originally the great instrument in vitalising the industrial energies of Scotland in its poverty-stricken condition, still conferred some of its old benefits, although the nation had become comparatively wealthy. With still further increase in wealth, and with the restrictions imposed on note-issuing by the Acts of 1844 and 1845, the direct benefits of a bank-note currency have well nigh vanished. Statesmen appear to be very ignorant on this point; for, even at the present time, they speak as if the mere fact of retaining an issue of £1 notes would satisfy the necessities of Scotland. It is not the fact that Scotland possesses a paper currency of the denominations of £1 and upward that confers a special benefit on the nation. It is the fact that the *banks are permitted to issue* such a currency that forms the advantage. Without this right, the character of banking in Scotland would be entirely altered;—the banks would be forced to contract the extent of their operations; banking facilities would be withdrawn from a great number of localities presently in the enjoyment of them; and the customers of banks would probably have to pay increased charges. The reason of this is that, by means of their right to issue, the banks can profitably conduct business at a much cheaper rate than if they had to use coin of the realm, or—what would be substantially the same, as far as the present argument is concerned—Government or Bank of England notes, for which they would have to give full value. This is the great point involved at the present time in the question of Scottish bank-note issues, and it deserves very full consideration by members of Parliament. But, in 1826, this indirect advantage was not alone in operation; the direct benefits conferred on a compara-

tively poor country by an efficient paper currency were also active. So popular were the notes of the Scottish banks—not only in Scotland, but also in the northern counties of England—that, during the height of the crisis, large quantities of them were forwarded to these districts, where, it is said, "they are equally as valuable as the paper of the Bank of England." As to Scotland, the writer adds, "So general is the feeling of security in this country, that even the most ignorant people have scarcely ventured to consider it possible that the distress at present existing in the English capital could extend to this side of the Tweed."* It was well, therefore, that the banks in Scotland were allowed to continue their long-established and well-appreciated custom of issuing £1 notes.

So conspicuously was the superiority of the constitution of the Scottish banking system over that of England shown to be by the experience of this crisis, that, as we have seen, the Government tried, as far as possible, to extend its principles to the sister kingdom, by encouraging the formation of large joint-stock banks. The attempt proved highly successful, despite the difficulties presented by the consequences of previous banking legislation. Several banks, which have since become very powerful institutions, were soon afterwards formed. In this work,† a writer, who was himself a practical and successful banker, and took an active part in the projection of joint-stock banks in London, very clearly showed the advantages which were derivable from adopting Scottish principles, by contrasting the experience of the systems of banking

* *Scots Times* (Glasgow), 24th December, 1825.

† "Principles and Practice of Banking." T. Joplin. London, 1826. The author founded, and was the first secretary of, the Provincial Bank of Ireland.

pursued in Scotland and England respectively. He further showed, what has never been fully appreciated by English statesmen, that paper currency, payable in gold on demand, cannot be issued at pleasure; and that the freedom of Scottish banking, by permitting the growth of a system of large joint-stock banks, had preserved the northern kingdom from the disastrous experience which had attended banking in England. On the other hand, he makes the curious statement, that privacy was the cause of the success of the Edinburgh banks. By this, he means that they were enabled to amass large profits by speculation in the public funds. This was undoubtedly the case; but the success of the system cannot, of course, be used as an argument against the publicity which is now rightly desiderated. Another English banker,* who, however, is by no means so complimentary to the Scottish bankers, denounced the past course of banking legislation with much vehemence, but with, perhaps, less discretion. The following quotation, from a more pleasing writer,† is interesting as an appreciative contemporary statement of the advantages of a paper currency:—"It has been proved that all the parties who make use of money for purposes of interchange, buyers as well as sellers, share in the great advantages derived from the substitution of paper for metallic money. Consequently, there can be no doubt that, by universal consent, the former will be used in preference to the latter, whenever the security offered for

* "The Scotch Banker." Thomas Attwood. London, 1828. Mr. Attwood was a banker in Birmingham. He writes fiercely against the Scottish banks, styling them "monopolising and engrossing," and ascribes their comparative immunity from disaster to their not being pressed. But why were they not pressed?

† "Credit Currency." G. Poulett Scrope. London, 1830.

the convertibility of notes on demand is such as to ensure the public confidence. Thus it has been ascertained from experience, that gold and paper money of the same denominations will not circulate together. '*The paper drives out the gold.*' This has been, somewhat absurdly, made a matter of regret by those who fail in perceiving that it only takes place in consequence of the vast benefit which a paper currency confers on all producers, by enabling them to retain and employ that part of their capital which would otherwise be locked up in a metallic currency. So far from being a defect, it is the great merit of a paper currency, without which, indeed, it could neither be introduced into circulation, nor of any service were it introduced."

CHAPTER XVI.

A TYPICAL PERIOD—JOINT-STOCK MANIA, AND THE CRISIS OF 1837.

THE period which falls to be treated of in the present chapter extends from the crisis of 1825-6 to the death of King William IV. in 1837. It is a well-marked illustration of the theory of cycles in financial and commercial experience. From 1827 to 1832 there was commercial depression, consequent upon the sufferings and losses of the preceding crisis. With 1833 there came a change for the better—activity and enterprise were abundantly manifested, and prosperity shone on the land. In its political aspects, the period is noticeable for the almost profound peace which Britain enjoyed, the only important exception being a short conflict with Turkey in 1827, when the battle of Navarino, fought by the allied squadrons of Britain, France, and Russia, gained the independence of Greece. In the earlier years of the period, much distress prevailed among the working classes, which broke out in riots, among which those at Bristol, in the autumn of 1831, acquired pre-eminence. The Corn Laws were pressing heavily upon the people, by maintaining the price of bread. The sliding scale of duties introduced in 1828 may have mitigated the sufferings; but the high price of corn was in itself a sufficient affliction. The cholera epidemic of 1831-2 found the country in an unfavourable condition for resisting such a scourge. Meanwhile, however, the spirit of mechanical enterprise, to which we have referred

in previous chapters, continued to develop. Following on the establishment of oceanic steam communication, the foundation of the great system of railways was laid on 15th September, 1830, by the opening for traffic of the Manchester and Liverpool Railway, and the application of steam power to various departments of industry was continually on the increase. The final abolition of Colonial slavery, the rapid increase of periodical literature, Parliamentary reform, the manifestation of the power of trades-unionism, and the adjustment of the Poor Laws, were other notable features of the period.

In the department of banking a rapid development took place. This is specially noticeable subsequently to 1833, when the Bank of England Charter Act was passed. By it the formation of joint-stock banks in London and the provinces was greatly facilitated. The Act of 1826, dealing with this matter, does not seem to have been explicit enough, or sufficiently wide in its provisions. Under the powers of the new Act, however, a mania for joint-stock banks sprang up, and this species of investment was greatly overdone. In 1835 and 1836 upwards of one hundred new banks were established in England and Wales alone. In 1827 the directors of the Bank of England adopted an important resolution for the conduct of their business. This was, that in future the foreign exchanges, the variations in which had been systematically ignored since 1819, should be deemed a necessary factor in their calculations. Under a provision of the Act of 1833, moreover, they were required to publish a weekly statement of the position of the bank.

Turning to Scotland, which is the main subject of our record, there is much to chronicle. In 1827 there appear

to have been about thirty-two individual banks, of which several had numerous branches, and most had some. An evidently very loose estimate of the deposits held by these establishments places the amount at from ten to twenty-five millions sterling. Such a calculation is, of course, of little practical use; but it shows, at all events, the ideas of magnitude in banking business held at that time. Of these banks, several passed out of existence during the succeeding ten years. In 1829 the Montrose Bank, which had been established in 1814, was amalgamated with the Dundee Union Bank. The firm of James and Robert Watson failed in 1832. The house had been established in Glasgow in 1763 by David Watson, the later firm dating from 1793. At the time of their failure this firm were agents for a large number of banks; and it would seem that this department of banking constituted the main part of their business; but they are stated to have held the greatest amount of agency business of any bank in Glasgow. In 1831 their office was robbed by London thieves. Whether owing to this disaster, or to unsoundness in their business arrangements, they stopped payment in June of the succeeding year. The two Edinburgh firms of Thomas Kinnear & Sons, and Donald Smith & Co., amalgamated their businesses in 1831 as Kinnears, Smith & Co. This arrangement ended, however, three years later by the failure of the new firm, with about £320,000 of liabilities—an event which caused a considerable run on one or two of the other private banks in Edinburgh.* In 1832 the exchange and deposit firm of J. Maberly & Co., who were also manufacturers in England, closed their doors

* *Tait's Edinburgh Magazine*, September, 1834. This firm issued notes of the Bank of Scotland only.

after an existence of fourteen years. Their business was an important one on account of the number of offices at which it was conducted, and the active competition they carried on with the Scotch banks proper. The failure disclosed a large deficiency. The Commercial Banking Company of Aberdeen amalgamated with the National Bank of Scotland in 1833. The private firm of Robert Allan & Son, established at Edinburgh in 1776, stopped payment in 1834, with about £108,800 of liabilities.* About the same time, the younger firm of James Inglis & Co. (formerly Inglis, Borthwick, Gilchrist & Co.) also failed, their liabilities being stated at £23,000. It is probable that these events were connected with the failure of Kinnears, Smith & Co. just alluded to.

The Thistle Bank Company, established at Glasgow in 1761, amalgamated in 1836 with the Glasgow Union Bank. Another event of that year was the absorption of the Perth Union Banking Company by the National Bank of Scotland. Next year Messrs. Ramsays, Bonars & Co., private bankers in Edinburgh, withdrew from business. It is understood that their business had not, latterly, been of a favourable character; but their retirement was quite voluntary, and the business was wound up by themselves.† In November of this same year, the Paisley Banking Company, on the expiry of their contract of co-partnership, made over their business, which included branches at Glasgow, Irvine, and Stranraer, to the British Linen Company. An important

* They did not issue their own notes, but used those of the Royal Bank exclusively.

† Mr. Wenley gives the date as 1834; but the circular, stating that "the surviving partners, having determined to retire from business, hereby intimate that they will cease to receive any money on deposit," or to issue notes, is dated 6th February, 1837.

amalgamation, which took place in the same year, was that of the old Ship Bank and the Glasgow Bank Company, under the designation of the Glasgow and Ship Bank.

It will thus be seen that the period with which we are at present dealing witnessed the extinction of an unusual number of banking companies. It would seem as if those companies who, either from the smallness of their business, or from old-fashioned habits of mind on the part of their managers, were unable to adapt themselves to the altered and continually expanding circumstances of the country, were destroyed or swallowed up by their larger or more vigorous rivals. The doctrine of the survival of the fittest came powerfully into play amid the rapid development of the national industries, fostered by the achievements of mechanical skill. But while old banks disappeared, new ones arose; and the system of branches received a great impetus. The single office system appears to have been discarded almost entirely by the older establishments, and all the new banks seem to have considered branches as indispensable to their business. Private banking also was rapidly dying; and, although a few firms survived this period, their real character was almost always veiled under a local designation. The old system of local, or, at best, district, banks, was rapidly giving way before the modern system of broad-based establishments, partaking to a greater or less extent of a national character. Greater safety and economy in management was thus secured; but the new system, in its now largely-developed form, while in the main more satisfactory than its predecessor, has not been without its disadvantages to the trading community.

In the earlier years of the period under review, the

great depression existing in connection with trade and finance prevented the formation of any new establishments, and very few new branches were opened. In 1830, however, the Ayrshire Banking Company, with a head office at Ayr, and five branches in the county, was established. A still more important movement was the formation of the Glasgow Union Bank, with branches at Edinburgh, Greenock, and Bathgate. Its capital was £350,000, held by 488 partners. By the rapid absorption of a multiplicity of large and small banks throughout the country, this bank fairly justified its name, and fully earned the designation of the Union Bank of Scotland, assumed by it in 1843. Another great bank was formed in Glasgow in 1832, whose growth was still more rapid than that of the Union, and whose career was destined to secure to it a more unenviable notoriety than any of its predecessors had procured. The Western Bank of Scotland commenced business on 2nd July, 1832. At its annual balance on 29th May, 1833, the capital is placed at £209,170, held by 430 partners. From the outset it was managed with great activity, and it soon distanced its contemporaries in the growth of its business. But it achieved this result by setting at defiance the soundest principles of good management, in the face of the often-repeated remonstrances of friends and rivals; until, twenty-five years after its establishment, it became a wreck, such as had never been seen previously in the financial history of Scotland. Two years later than the Western Bank, the Central Bank of Scotland, with a capital of about £80,000, was established, with its head office in Perth. The North of Scotland Banking Company was formed in Aberdeen in 1836. In the same year an attempt was made to establish

another bank in Glasgow. This was the City Banking Company of Glasgow. The attempt, however, proved abortive, owing, in all probability, to the doubt and hesitation prevailing among business men, as events tended towards the crisis which burst upon the nation soon afterwards.

Among other events deserving record was the passing of the Act 9 Geo. IV., c. 65, in 1828, by which the issuing in England of Scotch or Irish small notes was prohibited. The restriction did not extend to notes of £5 and upward. The Royal Bank of Scotland obtained, at the close of 1829, a new warrant of charter, by which it was empowered to increase its capital to £2,000,000. This power was exercised early in 1831, by appropriating £100,000 of reserved profits, and making a call of £400,000 on the proprietors. In 1831 the Commercial Bank and the National Bank obtained charters of incorporation. This judicious step was sadly marred by the adoption of the new principle, which had recently been obtaining general acceptance, of attaching unlimited liability to the stock of Corporations. The amount of branch extension which occurred during the period with which we are at present dealing was extraordinary. Not only did all the new banks open branches, but the older banks, with the exception of the Royal Bank, who steadily refrained for long after this time from establishing a general branch system, spread their agencies over the land with great rapidity. About one hundred and ten new offices were opened, of which about 93 were branches of banks existing previously to 1827.

As we have already indicated, the turning point of the period was the year 1833. From that time an active spirit

of speculation set in, the main subject of which was joint-stock enterprise. In this department railways began to attract the favourable attention of promoters and investors; but the railway mania proper belongs to a somewhat later date. Of the many forms which speculation assumed, the favourite was joint-stock banks. But numerous other species of companies were promoted. It has been estimated that, in the years 1834-5-6, the new companies projected involved nominal capitals to the extent of two hundred million pounds sterling.* But it was not thus alone that the speculative spirit found vent. Owing to the higher rates of interest offered in America, large quantities of United States securities were greedily absorbed in this country. This led to a continuous and heavy drain of gold from the Bank of England, which, despite the efforts of the bank to stem it, reduced the reserve to a low point. The first actual disturbance began in Ireland in the autumn of 1836, by the suspension of the Agricultural Bank. It appears to have been a badly-managed concern. One or two of the few Irish private banking firms who had survived the crisis of 1820 also gave way. English bankers became alarmed, and their precautions led to a still further reduction of the stock of bullion in the Bank of England. A lull, however, took place; but, in March of the succeeding year, the storm which had been brewing burst over England and Scotland. Many bankruptcies occurred; but the recorded number for 1837 is not so much above the general average as might

* "No fewer than 119 new companies have been started in London during the last year (1835). Of these, 41 are mining companies, 35 for the establishment of railways, and 43 miscellaneous. The nominal capital is—Mines, £2,994,000; railways, £34,040,000; miscellaneous, £19,811,000; total, £56,845,000."—*Edinburgh Chronicle*, 6th February, 1836.

have been supposed, from the active speculation which had been carried on. Of the failures in England, few appear to have been of bankers. The most notable bank failure was that of the Northern and Central Bank of England. It had only been in existence for about three years. Another case was that of the Norwich and Norfolk Joint-Stock Bank; but it was a comparatively small affair. In neither case do the creditors seem to have lost, and the shareholders did not suffer very severely. We have already detailed the banking events which occurred in Scotland at this time, from which it will be seen that the crisis fell lightly on Scottish banking.

CHAPTER XVII.

THE CLOSE OF FREE BANKING.

With the accession of Queen Victoria to the throne of Great Britain, on 20th June, 1837, commenced a new era in the history of the country. From that date onward there has been a triumphant progress of more remarkable development of industry, science, and social improvement, than history records of any former age. The beginnings of this social revolution have been indicated in previous chapters as concurrent with the century; but it was reserved for the Victorian era to achieve its development. The application of steam to navigation and manufactures had accomplished a mighty work, but the connecting link was wanting so long as inland transit was conducted under the slow and laborious methods of highways and canals. When steam railways became an established system, men's eyes were opened; and from thenceforth they thought and acted with an independence and activity they had never formerly displayed. Improvements in every department of business and social relationship succeeded each other with uninterrupted rapidity. The general condition of the country, however, at the time with which we are at present dealing was not yet one of emancipation. Men's eyes were indeed opening to the realisation of brilliant possibilities, but they failed not also to see intolerable evils around them. The achievement of constitutional liberty in 1832 had, as yet, done little beyond making the nation conscious of its power to accomplish its own emancipation.

But when that consciousness had been attained, the good work sped apace. Deterrent influences were, however, at work. Wars in China and India—costly and, at times, very disastrous; Chartist riots and Irish troubles; industrial and agricultural distress and disturbances, and a high rate of bankruptcies followed, for a few years, the effects of the crisis of 1837. But the national appreciation of railways was not to be checked in its manifestation. A mania for investment in railway undertakings set in, resulting in a much more rapid expansion of the system than the circumstances of the country warranted. Trade was thus stimulated, both directly and indirectly, to an unusual extent.

The position of banking in Scotland at the close of 1837 was as follows:—There were five chartered banks, with aggregate capitals amounting to £4,600,000, on which dividends averaging six per cent. were paid. Five other joint-stock banks had capitals amounting to £1,550,000, on which the dividends averaged slightly less than six per cent. These ten banks had 213 branches, of which the chartered banks held 158. There were, besides, other seven joint-stock banks, and seven private banks, with 37 branches. This gives a total of twenty-four banks, with 274 offices. The average circulation of these banks does not appear to have much exceeded three millions sterling, the small notes forming about two-thirds of the total amount. The amount of the deposits was estimated at twenty-five millions; but little weight can be attached to a calculation which, in the absence of official information, must have been largely founded on imagination. The average price of the stocks of the chartered banks was 178 per cent., and such of the shares of the other banks as were quoted stood at high premiums.

In 1838 the affairs of the Western Bank of Scotland again came into prominence. The experience of the recent crisis, combined with the results of injudicious banking in America, and the public attention which was increasingly bestowed on banking, led the Edinburgh banks to consult with the other banks in Scotland as to the advisableness of permanently maintaining large reserves of coin and Government securities, in order to secure the proper conduct of banking in Scotland. It may be presumed that there was a consensus of opinion on this point; but it was a wise and even necessary step that negotiations on the subject should be held, considering that one powerful establishment had hitherto ignored the principle. This was the Western Bank of Scotland. They had a paid-up capital of £600,000, on which a dividend of five per cent. was paid, and they had 17 branches throughout the country. Four years previously they had been remonstrated with on the same matter, on an application by them for assistance. They had then given a reluctant adhesion to the practice, and had obtained large advances to enable them at once to carry it out. But, the immediate necessity past, they appear to have relapsed into their bad habit. When the Edinburgh banks again remonstrated in 1838, they defended themselves on the grounds that investments of a fluctuating character should be avoided, and that the fostering of the trade of the country was their first duty. The banks then intimated that after 21st July they would decline to take Western Bank notes, unless their wishes were complied with. After further negotiations the Western Bank again undertook to conform to the practice of investing in Government stocks, and the Edinburgh banks withdrew

their resolution. Later in the same year the Western Bank applied to the Crown for a charter of incorporation; but, on representations by the Edinburgh banks, based on the tenor of the correspondence referred to, the application was refused.

During the year 1838, six new joint-stock banks were established in Scotland. Of these, the most important, as viewed from the present time, was the Clydesdale Banking Company in Glasgow, with a paid-up capital of £375,000, in £20 shares with £10 paid. Three years later its paid-up capital was £500,000, and the shares sold at £12 17s. At first its only branch office was in Edinburgh. The only other bank started in this year, which has survived to the present time, is the Caledonian Banking Company in Inverness. It began with a capital of £125,000, one quarter of which was paid up. It would appear that its projection met with serious opposition in some quarters, but that, nevertheless, its shares were popular with the public. In 1841 the paid-up capital was £75,000, and the £2 10s. shares sold at £3. The Eastern Bank of Scotland was a hurriedly-organised concern, destined for a special purpose. That purpose was to take over the business of the Dundee Commercial Bank, whose affairs had got into a hopeless condition, before the state of the latter bank should become public. This object was successfully accomplished, and the Eastern Bank of Scotland commenced business in July, 1838, with a paid-up capital of £112,510. The chief office was in Dundee, but there was also a nominal head office in Edinburgh. A still more important establishment was the Edinburgh and Leith Bank. It is stated to have been designed for the benefit of the "industrious middle class," and it at once

sprang into popularity. A contemporary writer says of it —"A great deal of speculation took place in the stock of the Edinburgh and Leith Bank. The shares went to 5s. premium as soon as they were in the market, and 2000 or 3000 shares have been known to change hands in the course of a single day. It is now (1841) one of the most popular banks in Edinburgh, and sells at a high premium."* Its capital was £500,000 in £5 shares fully paid. It had six branches. In 1844 it was re-organised as the Edinburgh and Glasgow Bank, at which time the Glasgow Joint-Stock Bank joined it, with a paid-up capital of £1,000,000. No bank had better chances of a long and prosperous career than this one. Starting with popularity, it rapidly obtained a large deposit business. Its authorised circulation under the Act of 1845 was £136,657, which was much in excess of that of any other bank of its own age. But antagonistic management between the western and eastern offices, and incompetent direction under the two boards, which the Edinburgh directors were too feeble and ignorant of financial business to control, occasioned the losing of the golden opportunity. Heavy losses were incurred; the bank lost credit during the crisis of 1857, and next year its valuable business, together with the large authorised issue, passed into the hands of the Clydesdale Bank by amalgamation, in which the shareholders gained nothing except relief from a responsibility which never emerged. The Paisley Commercial Bank was also formed in 1838. Its capital was £200,000 in £20 shares, one half being paid up. After a short career it was merged in the Western Bank. Another venture of

* "Manual of the Scottish Stocks and British Funds." John Reid. Second edition. Edinburgh (1841), p. 22.

this year was the Southern Bank of Scotland, with its head office in Dumfries. Its projection was coldly received, but it would seem that its shares went to a premium very soon. It had a capital of £500,000 in £20 shares, with £5 paid. In 1841 its shares, with a five per cent. dividend, were at 2s. premium; but in the next year it was fain to find rest from incompetent management in the bosom of the Edinburgh and Leith Bank.

Next year (1839) the prospectus of a new bank in Glasgow was issued, in which it was observed—"It is not a little astonishing that, notwithstanding the rapid strides which commercial enterprise has taken in Glasgow (and a correct idea of its extent may be formed by a glance at the shipping arriving at the harbour, the revenue from which, during the last thirty years, has increased from £1000 to nearly £40,000 during that period), only three new banks have been formed in Glasgow, all of which have been eminently successful." This new financial venture, designed to make amends for want of enterprise in former years in accommodating the expanding trade of the great western community, and intended as an addition to the roll of brilliant banking successes, was the now world-known City of Glasgow Bank. It had a capital of £750,000 in £10 shares, of which £656,250 was paid up by the middle of 1841, the price then being £9 10s. for £8 15s. paid per share. The lamentable manner in which this bank failed to realise its intentions, as expressed by its promoters, is now only too well known. It suspended payment for thirty-three days during the crisis of 1857, having succeeded, during the 18 years of its existence, in laying the foundation of a style of bank management peculiar to itself. Having tided over its

difficulties, it resumed the practical study of those economic theories, the full development of which won for it, twenty-one years later, greater notoriety than had ever previously fallen to the lot of any business establishment.

The Glasgow Joint-Stock Bank and the Greenock Union Bank were formed in 1840. It is stated that the projection of the former bank "met with great encouragement, and the applications for shares were very numerous." In 1841 it had a paid-up capital of £562,500, and its shares stood at a fair premium. As already stated, it joined the Edinburgh and Leith Bank, in 1844, as the Edinburgh and Glasgow Bank. The Greenock Union Bank had a paid-up capital of £125,000. Its shares sold at a discount soon after it commenced business. It joined the Clydesdale Bank in 1843. The Glasgow Banking Company was formed in 1843, but it does not seem to have commenced business until the next year. At all events, it is said to have been unable to secure the right of note-issuing; but why this should have been is not evident, as the prohibition of the Act of 1844 only applied to banks who were not issuing on 6th May of that year. It is probable that the average issue was so small as to be considered practically worthless, no value being placed at that time on the right to issue against coin in reserve. When the Act of 1844 was passed, it amalgamated with the Western Bank.* Thus practically ended the formation of new banks in Scotland. It must be admitted, however, that, for a population of about 2½ millions, the finish was rather brilliant.

* "Banking in Glasgow during the Olden Time." Glasgow, 1862, p. 32. See, also, Boase, second edition, p. 425.

But while so many new banks were entering the list, some veteran firms were retiring. The business of Sir William Forbes & Company ceased to be a private bank in 1838, when an amalgamation was effected with the Glasgow Union Bank. In consideration, however, of the extent of business and high reputation of the firm, the old designation continued to be used until the Glasgow Union Bank transformed itself into the Union Bank of Scotland in 1843. The Paisley Union Bank Company, and the Glasgow and Ship Bank, also joined the Glasgow Union Bank in 1838. In 1844 the Dundee Union Bank joined the Western Bank, and the Arbroath Banking Company joined the Commercial Bank. But it was not only by the honourable means of amalgamation that the roll of banks was being reduced. Insolvency, also, was thinning the ranks. In 1842 there were three failures, but none of them was of great magnitude. These were the Leith Banking Company, the Renfrewshire Banking Company, and Hay & Ogilvie (the Shetland Bank), all of whom were sequestrated with considerable loss to their creditors. As curiosity became excited, towards 1843, as to the intentions of the Government in regard to banking and currency, private banks rapidly disappeared by amalgamation with their joint-stock rivals, until, in 1844, only one or two were in existence.

CHAPTER XVIII.

THE REVOLUTION SETTLEMENT.

THE year 1844 marks a distinct revolution in the constitution of banking in the United Kingdom. Owing to the pernicious effects of special legislation in favour of the Bank of England, the natural development of banking in England had been greatly hampered. The Bank of England would neither themselves supply the necessities of the provinces (indeed, they could not have done so to more than a small extent), nor would they allow any other powerful establishment to minister to them. The consequence was that English provincial banking was per force conducted by small private partnerships, whose responsibility was, as far as the public was concerned, a matter entirely of faith or conjecture. Until 1826 not more than six persons were permitted to associate themselves for the purpose of carrying on the business of banking. Thus for a period of one hundred and thirty-two years from the formation of the Bank of England, every encouragement was given to weak bankers; strong banks (with one exception) were absolutely prohibited; and the one powerful establishment, for whose special benefit the public interests were ignored, was not required, nor did it spontaneously endeavour to supply the vacuum. From this state of matters it very naturally followed that every financial crisis produced a long list of bank failures, and that, periodically, an outcry was made about the insecurity of bank notes. That the results were not worse than they

actually proved, must be attributed to the general respectability of the persons with whom the public entrusted their financial affairs, and not to any beneficial element in banking legislation.

Banking legislation was tinkered from time to time, each operation encroaching slightly on the monopoly of the Bank of England; but the monopoly itself, the real element of weakness, was ever regarded as too sacred an institution to be absolutely removed. No Government would face such a daring operation, nor is it probable that any actually recognised it as the proper remedy. In 1826, as we have already seen, the nearest approach to this course was taken; but the operation was only half accomplished.

Sir Robert Peel's powerful and practical mind recognised the necessity of putting banking legislation on a proper footing. He saw the weaknesses of the existing system, and wisely determined to remove them. His diagnosis of the case was, however, in one essential particular, very deficient, and his treatment was hampered by preconceived ideas. He certainly did good—he succeeded in establishing the convertibility of bank notes, or, at least, in minimising the danger of their proving inconvertible. But he accomplished this by creating a most cumbrous and artificial system to supersede a simple but pernicious one, in place of sweeping away all monopolies, and permitting a healthy and natural development. He failed to study exhaustively the history of the case. He saw correctly enough the existing condition; he saw that banks were weak, and that notes were sometimes not convertible either on demand or at any subsequent period. He therefore came to the conclusion that the

system of private issues was bad, and should be discouraged. He appears entirely to have overlooked the vast public benefits derivable from such issues; the danger attaching to them was too close to his mind's eye to allow him an unbiassed judgment. All that he really contended for—that is, the convertibility of the note—might have been effectually secured without paralysing the provincial issues. He might have absolutely abolished issues without security, provided the right of issue had been preserved, and the public interests would not have been injured; but by drawing a hard and fast line, beyond which issues could not go, he prevented bankers from ministering to the wants of the public in as great a measure as they might have done. He seized the idea that note-issuing and banking were essentially distinct; that the former was the prerogative of the State, and that the latter should be conducted without connection with the former. He refused to recognise the danger of entrusting Governments with the power of paper issues, and he failed to appreciate the great public benefit of the association of issuing with general banking. He therefore devised a measure which should so far conciliate existing interests, but tend to the abolition of private issues, and leave the trade of banking absolutely free. As we will see, he succeeded in establishing a new monopoly, and in restricting the freedom of banking.

On 7th May, 1844, he introduced a Bill, which, on 19th July following, became the Act 7 and 8 Vic., c. 32, "to regulate the issue of bank notes, and for giving the Governor and Company of the Bank of England certain privileges for a limited period." We cannot do better than quote the words of a contemporary writer in

describing the Act:—"The Bank's charter was renewed by the Act 7 and 8 Vic., cap. 32, 19th July, 1844. Its chief points were as follows:—1. After 31st August, 1844, the issue of notes to be by the Bank, acting by a committee of directors, under the name of 'The Issue Department of the Bank of England.' 2. Securities of £14,000,000 to be set apart for this, and gold to be held for amount of notes beyond this. 3. If any bank of issue ceases issuing notes, the Crown in Council may authorise the Bank's Issue Department to hold securities for two-thirds the amount of that bank's issues, and increase the £14,000,000 of notes against securities to that extent. [This has since been done to the extent of £1,750,000.] 4. Weekly accounts of the Bank's position to be published in the *Gazette*. 5. Bank to pay £60,000 more than the £120,000 settled in 1833 for their privileges, and all profits on notes beyond £14,000,000 to accrue to the public. 6. No new banks of issue to be permitted after 6th May, 1844. 7. Any bank ceasing to issue notes not to be allowed to resume issues. 8. All banks of issue to be allowed to issue an amount equal to their average circulation for twelve weeks preceding 27th April, 1844. 9. Bank of England to be allowed to compound with private banks of issue to withdraw their notes, and get a commission not exceeding one per cent., till 1st August, 1856. 10. Privileges of the Bank to continue till twelve months' notice after August, 1855."*

Of these provisions, the only one directly affecting Banking in Scotland is the 6th. By it the formation of new banks of issue, which had hitherto been freely exercised, was prohibited. There were nineteen banks of

* Boase, second edition, p. 428.

issue in Scotland on 6th May, 1844. Their total average circulation was ascertained to be £3,087,209, which amount consequently became their authorised issue of bank notes. Since then, by the failure of two banks and the absorption of seven banks, the number of banks of issue has been reduced to ten, and the authorised issues to £2,676,350. The present average circulation of all the banks is about £5,550,000.

Further legislation was deferred until next year, when the cases of Ireland and Scotland were dealt with specially. The Irish Act, 8 and 9 Vic., c. 37, 21st July, 1845, rectified one great evil which had resulted from the establishment of the Bank of Ireland on principles of special privilege, as in the case of the Bank of England. Hitherto no partnership or company consisting of more than six persons, other than the Bank of Ireland, had been permitted to conduct banking business in Dublin, or within fifty miles of it. This prohibition was abolished by the 1st section of the Act, from and after 6th December ensuing. Provision was made for the repayment of sums advanced by the Bank of Ireland for the public service, and for the dissolution of the bank if determined on. Bank of England notes were not to be a legal tender in Ireland; banks might surrender their right of issue in favour of the Bank of Ireland; and notes for less than 20s. were prohibited. With the exception of a special provision referring to an agreement between the Bank of Ireland and the Tipperary Joint-Stock Bank (which had been established by John Sadlier in 1839, and failed in 1856, with great loss to creditors through the fraud and forgery of its founder), under which the latter only issued notes of the former, the other enactments of the

Irish Act are similar to those of the Scotch Act, which we must now refer to.

On the 21st July, 1845, there received the Royal assent "an Act to regulate the Issue of Bank Notes in Scotland," 8 and 9 Vic., c. 38. This is the Act under which the note circulation of Scotland has since been conducted. As no special privileges existed among the Scotch banks (the matter of incorporation was entirely within the power of the Crown), legislation was comparatively simple. Sir Robert Peel was convinced that he could not extirpate either the small or the large notes, as the people strongly believed (in what he doubtless considered their ignorance) that their bank-note system had been an efficient agent in advancing the prosperity of the country. That the public of Scotland were correct in their view of this matter will, it may be hoped, be evident from the former chapters of this history. At the same time it may be conceded in favour of Sir Robert Peel's theories, that the usefulness of the notes was not in 1845 what it had been in former times. The paper currency, formerly indispensable to the commerce of a country which was too poor to indulge in the precious metals, was no longer absolutely necessary under the happier circumstances to which the country had attained—but the people liked the notes, and continued to regard their existence as of as much necessity as formerly. It does not appear from contemporary writings that the true value of bank-note issues in modern times was actually appreciated. The defenders of the *status quo* always drew their arguments from past experience, which, as we have seen, was every year losing, to some extent, its applicability. The great use of bank notes in relation to banking at the present time, from a public point of view, is their

function of enabling banks to extend banking facilities into all parts of a country—thinly-populated and poor districts as well as dense centres and wealthy provinces. The saving in wear and tear of coin is another important benefit. Not only is there much less loss in this way, but such as there is practically falls on bankers. Sir Robert Peel, however, was determined to restrict to some extent the powers of issue in Scotland, although he was forced to confer freer powers of action than he had accorded to English bankers. The 1st section of the Act re-enacts the prohibition of new issuing banks contained in the English Act, and made arrangements for ascertaining the average circulation of each existing bank, so that the amount of their authorised issues might be fixed. Sections 2, 3, and 4 provided that uniting banks might retain the full powers of issue enjoyed by them separately. Section 5 prohibits notes for fractional parts of £1. This was no new provision, as it had existed since 1765. Section 6 permits banks to issue to the extent of their authorised issues, *plus* the average amount of gold and silver coin held at their head offices during every successive period of four weeks. Section 7 provides for the rendering to the Commissioners of Stamps and Taxes of weekly accounts relating to note-issues. Section 8 defines bank-notes in circulation as those which had left bank offices and had not been returned thereto. Section 9 enjoins Commissioners of Stamps and Taxes to publish monthly returns of the state of the bank issues. Section 10 regulates the mode of ascertaining the average amount of notes in circulation. Section 11 enacts that silver coin shall only count as against the note-issues to the extent of one-fourth of the gold so held. Section 12 empowers the commissioners to

inspect bankers' books for the purpose of ascertaining the accuracy of returns. This power has never been exercised. Section 13 orders all bankers (except the three limited banks) to render a yearly return of the names of all partners. Section 14 prescribes that the penalty on excess of issues, beyond the authorised circulation and the metallic reserve, shall be forfeiture of the excess. Section 15 provides that Bank of England notes shall not be legal tender in Scotland. This was merely a specific enactment of the existing law. Section 16 makes notes under 20s. not negotiable. Section 17 prescribes the form of notes for amounts from 20s. to £5. Sections 18 and 19 prescribe penalties for the non-observance of provisions of the Act. Section 20 exempts cheques from inclusion under the provisions of this Act. Section 21 refers to the mode of recovering penalties; and Section 22 (the last) interprets the words used in the Act.

Although this Act does not square in all respects with economic principles, there can be little doubt that its main provisions have proved salutary to the public interest. The needless formation of new banks at once ceased, much to the public benefit. Now that the note-issues exceed the authorised circulation, a bullion reserve on the part of every bank is secured. No doubt a well-regulated bank would hold such a reserve without being forced to do so; but then all banks are not well regulated. The provisions in favour of amalgamating banks have tended to the elimination of small and weak banks. A system of large and wide-spread banks was encouraged. All these benefits, however, are more incidental to the operation of the Act than actually designed by it. The convertibility of the notes, and the prevention of over-issues, were the great

objects of Sir Robert Peel's measure. But it did not secure, although it perhaps strengthened, the convertibility of the notes; and over-issues were already impossible under the long-established system of exchanges subsisting among the banks. Some positive disadvantages, moreover, attach to the Act. A monopoly of banking, although not directly established, has been a practical outcome of its provisions, for it is believed to be impossible to successfully conduct a non-issuing bank in competition with the banks of issue. The relative proportions of the authorised issues also, although accurate at the time they were fixed, are now out of keeping with the actual circulations of the various banks. But, whether the Act has fully answered the actual intentions of its framer or not, it has not interfered with the public interest in retaining a wide-spread system of banking, and it has tended to the solidification of the banking institutions of the country. Had England been blessed with as good an Act, it would have been spared many grievous banking questions, which have disturbed the equanimity of economists and statesmen.

CHAPTER XIX.

FIRST BREAK-DOWN OF THE BANKING SETTLEMENT—EXCHANGE COMPANIES.

In last chapter an account was given of the revolution in banking legislation effected by the three Acts passed under the auspices of Sir Robert Peel, for the three kingdoms respectively. To complete the survey of banking in Scotland to the close of the year 1845, only a few further particulars require to be specified. In 1844 the National Bank of Scotland increased its paid-up capital from £500,000 to £1,000,000. The new shares were allotted to the existing proprietors. As it does not appear that any premium was required, and as the market price was about 50 per cent. premium, this would constitute a large bonus. The shares were at the same time converted into stock. The Commercial Bank of Scotland absorbed, in the middle of the same year, the Arbroath Banking Company, a small joint-stock bank, which seems, like Dogberry, to have had losses, of which, however, it was not so proud as to resist the temptation of security under the *ægis* of the brilliant metropolitan establishment which had so rapidly and surely won success in the banking field. In 1845 some excitement was occasioned by the removal from office of Mr John Thomson, cashier of the Royal Bank of Scotland. This unusual incident was occasioned by Mr Thomson's refusal to retire gracefully by resignation, when the interests of the establishment seemed to the directors to require

a change of management. Mr Thomson angrily addressed the proprietors on the subject, but the nature of his defence only served to justify the action of the board. He subsequently became manager of the Edinburgh and Glasgow Bank, and in that capacity he did not disprove the wisdom of the Royal Bank board in relieving him of his duties.

It will be proper to refer here to a species of company which, about this time, was the subject of a speculative mania, and whose operations were to some extent allied to banking. Indeed, some of these companies actually styled themselves "banks," although most of them were content with the less pretentious and more appropriately descriptive term of "exchange companies." The occasion of the formation of these companies was the great development of all classes of joint-stock associations, and more particularly of railway companies, to which reference has already been made. This extensive joint-stock enterprise was, to a large extent, mere speculation, and applicants for shares had very often no intention of retaining their allotments longer than was necessary to secure the premium to which public credulity and the wiles of promoters usually raised the shares soon after the floating of the company. In order to carry on these transactions to the best advantage, speculators sought for advances on the security of their stocks. Banks looked on such business as beyond the limits of their legitimate profit; but the demand for accommodation produced the necessary means for supply. Exchange companies sprang into existence, and achieved a rapid and brilliant success, beyond the expectations of their projectors. It was in Glasgow that this industry was originated, and where, also, it was most extensively carried

on. The first of these companies formed in Scotland appears to have been the Glasgow Commercial Exchange Company, which commenced business in May, 1845. The capital was £1,000,000, of which half was paid up. Before the close of that year other four similar companies were formed in Glasgow, and other two followed soon thereafter. In Edinburgh only one exchange company seems to have been established, but Aberdeen and Dundee helped to swell the list. The Edinburgh establishment was called the Exchange Bank of Scotland, and was under the management of Mr Duncan M'Laren, afterwards well and honourably known in connection with the affairs of the city of Edinburgh. The extent of the operations of these companies may be estimated from the fact that they usually had a full staff of officials, such as manager, secretary, cashier, and accountant, with a staff of clerks to correspond. Indeed, they aimed at appearing as thoroughly-equipped banking offices. As, during the height of the speculative mania which followed the brilliant harvests and general prosperity of the years 1842-45, speculators paid from 5½ per cent. to 8 per cent. for advances, while deposit money could be obtained with a margin of 2½ per cent. profit, the operations of these companies were attended with very great success. But, like Sancho Panza's enjoyment of power and luxury, this bliss was of short duration. The approach of the severe crisis of the autumn and winter of 1847-48 curtailed their business, and during the crisis they suffered heavy losses—a contingency which they seem never to have contemplated. Public confidence in them completely broke down, and in rapid succession they collapsed. Three of them disappeared in 1848, after a brief

career of three years' duration. The Edinburgh company survived till 1852, one of the Glasgow companies till 1853, and one has maintained till the present day a sort of galvanic existence, and a place in the *Banking Almanac*, although even its name is but little known. This is the North British Bank. It was established at Glasgow in August, 1845, and in 1872 its paid-up capital was stated to be £120,000, held by 155 partners, on which it paid a dividend of 1 per cent. In recent years, however, it seems to have refrained from paying even that small dividend, and it has, at the same time, modestly withheld particulars as to its financial position.

The theory on which these companies were formed was by no means an unsound one. Had they been managed with sufficient caution, and had time been given them to secure consolidation, they might have weathered the storms which inevitably disturb the financial world in well-marked cycles. But they were formed at a time when the securities in which they dealt were at an inflated price, and they acted as if the vast extension of financial activity which brought them into being would prove perennial. They were guilty, moreover, of grave errors in business management in regard to the securities they accepted. They also indulged in reckless competition with each other, and, strange to say, involved themselves in each other's liabilities, by taking over exchange companies' shares as security for advances. The soundness of the business, when properly conducted, is best evidenced by the fact that, when exchange companies had paid the forfeit for their bad management, banks adopted the business of advancing on stocks as one of their regular departments, and have since conducted it with much profit.

In a pamphlet,* written in defence of the companies when they were beginning to get into difficulties, a complaint was made that the banks attempted to suppress the companies by the formation of an association to deal with this business in their own interest, under the designation of the British Trust Company.

The interval of about ten years and seven months, which elapsed from the crisis of 1837 to that which we must now refer to, shows the usual rotation of experiences in financial and commercial affairs. The years 1838-42 are marked in the main by quiescence. In exception to this, however, it must be noted that the last great burst of the bank-projecting mania in Scotland took place in 1838. But this would seem to have been more the completion of projects conceived previous to the crisis, and found to be feasible in Scotland (where most of the crises from 1793 to 1857 fell with extraordinarily small effect, so far as banking is concerned), than a new outburst of speculation. The harvests of 1842-3-4 were exceptionally good, and were accompanied with great general prosperity. With this the speculative fever broke out with great intensity. The special form it assumed was the formation of railway lines. No number of railway projects seemed too many to the insatiable public. Every prospectus that appeared was greedily seized on, and shares applied for and gambled with both before and after allotment. Money was borrowed on shares obtained, in order to apply for the next venture. The game reached its maximum in 1846, and by the fourth quarter of the next year it was all over. In 1847 there

* "Banks and Exchange Companies." George Kinnear. Glasgow: 1847. The author was manager of the Glasgow Commercial Exchange Company. He also issued "A History of the Rise of Exchange Companies in Scotland, and a Defence of their Proper Business."

was a marked diminution in the railway mania, although the commitments were still on a sufficiently large scale. Speculation was giving way in 1846. This was the second year of the great Irish potato famine, and the famine fever had commenced its ravages. Distress in England, too, was manifest. Next year matters grew worse. Money was scarce and dear. Bankruptcies were numerous. The Bank of England minimum discount rate rose steadily from 3 per cent. to 8 per cent. during the months from January to October. The change was so impressive that a writer in 1847 asserts, with pardonable exaggeration, that there was a sudden and almost total cessation of commerce, and that mercantile cities appeared as if men were liquidating debts, winding up concerns, and retiring.* From the 18th to the 25th of October a state of complete crisis existed. Several joint-stock banks and a number of private banks failed in various parts of England. Assistance could hardly be got by men possessed of the best securities on any terms. On the 25th of October the crisis suddenly ceased. Accommodation could be had with ease, and was comparatively little asked for.

What was the cause of this extraordinary change? How were men's minds suddenly placed at rest, and their strained financial relationships instantaneously relaxed? The patent perpetual self-acting and generally beneficent Bank Charter Act, by which the powers of the Bank of England were restrained for the good of the community, was suspended by an arbitrary and illegal act on the part of the Government. As soon as it was known that the Bank of England would be allowed to set aside the provisions of the Act of 1844, which prohibited the issue of notes by the

* "The Crisis and the Currency." John G. Kinnear. Edinburgh: 1847.

issue department beyond a fixed amount against securities, *plus* the amount of bullion held by the department, the alarm subsided. Holders of securities, who before were panic-stricken to find that they were cut off from all assistance, were now perfectly satisfied with the knowledge that, should they require accommodation, they could easily get it, and, in most cases, did not even seek it. Thus, three years after Sir Robert Peel had so elaborately adjusted the basis of the financial system of the country, it came to a dead-lock. The restriction imposed on the Bank of England acted like the sudden jamming of an engine's works—intense friction and heat were produced. When the restriction was removed, the engine worked to the utmost satisfaction.

The effect of this crisis on the banking business of Scotland was not specially noticeable; but one point calls for attention. The Western Bank of Scotland, to whose affairs we have already referred, again got into difficulties. It does not appear, however, that the other Scottish banks were aware of this at the time. Pursuing its habitual course, despite remonstrances on the part of the other banks, and reluctantly-granted promises of amendment, the Western Bank had been lending out all its funds, re-discounting its bills, and neglecting to provide a reserve of convertible securities. In order to meet its engagements in London, it applied to the Bank of England, and got the loan of £300,000. This it repaid soon afterwards, owing, doubtless, to its growing popularity in Scotland replenishing its coffers. At the same time, the past-due bills account was running up to an alarming extent. Nothing could avert the fate in store for this establishment, its directors and manager being the complacent

subjects of an infatuation that is almost incredible. For it must be remembered that, up to the time of which we speak, it would have been an easy matter for the bank to reverse the policy which precept and experience had both condemned, and at the same time to have permanently established one of the best banking businesses in Scotland. The capital was nearly, if not entirely, intact. The bank enjoyed the utmost credit with the public, if not with the other banks. Losses might have been gradually made up from the large profits earned, and, before the next crisis came, the bank might have been in a thoroughly strong and healthy state. But all the experience of bankers in the past, all the reason and wisdom of those of the present, were contemptuously thrown aside by men who were mere tyros in the business. Carried away by the brilliance of the success they had achieved by their active and daring policy, they did not pause to secure the conquest they had made. When they had again to encounter trial, they found it ruin.

CHAPTER XX.

THE CRISIS OF 1857—THE WESTERN BANK OF SCOTLAND.

In its political aspects the period from 1847 to 1857—of which we must now treat—was marked by stirring events. During the first six years Britain was at peace with all the world; but the state of the nation at home was, for part of that time, very unfavourable. The country was suffering from the effects of the great crisis of 1847-48; cholera was manifesting itself again; the French Revolution of 1848 disturbed men's minds; conflicts between labour and capital were very bitter; and agitation for parliamentary and financial reform added to the disturbed state of the public mind. The late Dr. Norman Macleod described the year 1848 as a time of "famine, pestilence, riots, and rebellion." By 1850 matters appear to have improved, for the people seem to have been so far freed from material cares as to be able to join heartily in national excitement over the aggression of the Church of Rome in re-establishing the Papal hierarchy in England. The circumstances of the nation continued to improve. Unpopular taxes were successfully contended against; international communication was improved by the laying of ocean telegraph cables; and although in 1853 there were strikes and riots in connection with a general agitation for an advance of wages, these seem to have been the outcome of the increased volume and profitableness of trade. In 1854 the usury laws were abrogated. In the same year the peace which had hitherto blessed the nation was broken by the

declaration (March 28) of war with Russia. The Crimean war, undertaken by Britain and France on behalf of Turkey, lasted more than a year, and is estimated to have cost this country between £80,000,000 and £90,000,000, and an immense number of lives. Hardly had it been successfully concluded when hostilities with China broke out in 1856. Next year, the last of the period under review, was burdened with the horrible Indian Mutiny (May to December). The close of the same year witnessed a great commercial and financial convulsion.

In the preceding period the ruling feature of financial affairs was railway enterprise. The period from 1847 to 1857 was, on the other hand, marked specially by general commercial activity, which seemed to pervade all nations. Railway commitments, although steadily engaged in, were not on anything approaching their former scale; and the formation of joint-stock companies seems rather to have followed in the wake of advancing commercial prosperity than to have been the special subject of speculative attention, as was the case from 1825 to 1836.

As regards banking in Scotland, the period up to the crisis with which it closed, is almost destitute of important features, other than those evidencing a quiet but rapid development of the banking system within the limits laid down by the Legislature. In 1849 the British Linen Company obtained a new charter from the Crown, authorising them to increase their capital, which stood at £500,000, by £1,000,000. Next year this power was availed of to the extent of £500,000, making their total capital £1,000,000. In 1853 or 1854, the old-established Banking Company in Aberdeen was merged in the Union Bank of Scotland. During the earlier years of its existence this bank expe-

rienced quite extraordinary success. The last surviving private banking firm in Edinburgh, Messrs. Alex. Allan & Co., disappeared about this time. They had, it may be presumed, long ceased to do any active business as bankers, but the designation was kept up to the last. Their business as insurance agents and stockbrokers continued under another firm. Although the roll of bankers was practically closed by the Act of 1824, the banking system continued to develop. During the first half of the period the increase in bank offices was under 30; but in the second half no fewer than 240 new branches were opened. The Royal Bank commenced in 1855 an active extension of their branch system; but the banks which figured most prominently in this respect were the Western Bank and the City of Glasgow Bank.

The whole course of the year 1857 was one of tension in commercial and financial circles. It began with the Bank of England minimum discount rate at 6 per cent., which rose in April to 6½ per cent. The rate subsequently dropped to 5½ per cent. in July; but the average rate for the first half of the year was nearly 6¼ per cent., the average for the whole year being £6 13s. 3d. The foreign trade of the country had been extended during the immediately preceding years in a formerly-unknown ratio. The enormous dimensions which it had reached by 1857 were quite beyond the legitimate bounds of the world's requirements. Thus naturally arose a reaction which produced the crisis of the autumn of this year. Other causes, such as the great development of banking facilities, and some loose methods on the part of merchants giving credit to foreign correspondents, have also been ascribed as contributing causes. But these can only be considered

as subsidiary, for they were merely the natural accompaniment of the inflated sanguineness with which traders were imbued. The banks, as a whole, cannot be burdened with much blame for the troubles which arose; for it is evident from the final outcome that the great bulk of their advances had been well secured. Some of them, doubtless, did err to a culpable extent, and paid the forfeit with their existence; but for the others, it was not to be expected that they should refrain from transacting sound business, as judged from their own standpoint, merely because they thought that trade was being overdone. That was the merchants' business. It is thus evident that the real cause of the crisis of 1857 was over-trading by the merchants of the world. It might, perhaps, be still further limited by specifying the merchants of Britain and the United States.

The first serious trouble came from the latter quarter. Bankruptcies in America became numerous early in the year, and increased as it progressed. The banks there became embarrassed, and in September adopted a general suspension of specie payments. This course seems to have worked satisfactorily, without putting a stop to business. But, although the Americans could get on pretty well in that way, the consequences on this side of the Atlantic were very different. Failure of remittances from the United States forced British mercantile houses to stop payment. Undoubtedly solvent firms were obliged, for the time being, to succumb; and, of course, their weaker brethren were at once crushed hopelessly. The Bank of England discount rate, which had fallen to 5½ per cent. on 16th July, rose on 8th October to 6 per cent. Four days later, it was advanced to 7 per cent., and next week to 8 per cent. The banking reserve had been steadily and

largely falling, and on 24th October reached the low point of £3,485,840. On 27th October the Borough Bank of Liverpool failed, after a hopeless appeal to the Bank of England for assistance. The Northumberland and Durham District Bank also applied for assistance; but, after examination, aid was refused, and it had to succumb. Two large bill-broking houses in London, and a long list of minor houses, also failed. On 5th November the bank rate was raised to 9 per cent., and excitement reached a high pitch. The banking reserve had fallen to £2,155,315. It was seen that the bank's ability to render assistance was, under the fetters of the Act of 1844, rapidly falling to zero. The directors made every effort in their power, by the forced sale of consols, to replenish their reserve; but the drain was beyond their power to supply. On the 9th November the Western Bank of Scotland suspended payment, and the panic became excessive. On the 11th the banking reserve was only £1,462,000. Day after day the bank was forcing consols on the market to replenish the reserve. The applications for assistance were far beyond its power to meet. On the 12th affairs looked hopelessly dark. Suddenly there was a ray of light. It was whispered that the Government were about to sanction the breaking of the law. On the 13th the panic vanished, as by the virtue of a magic wand. The Lords of the Treasury wrote to the directors of the bank, authorising them to disregard the enactment of Parliament restricting their power to issue notes. As in 1847, so now; when people knew that there was no limit to the note-issue of the Bank of England, and, that, therefore, they could get assistance when they required, they no longer sought it.

It is probable that this crisis would have been compara-

tively slight in Scotland, had it not been for the rottenness of the Western Bank of Scotland. As it was, the crisis was intense in Glasgow and Edinburgh, and disastrously affected the whole country. What gave peculiar sharpness to the panic was the unexpectedness of its immediate cause. The Scottish public have always displayed an amount of confidence in the banking institutions of their country, which at first sight seems somewhat out of keeping with their hereditary canniness. In point of fact, however, their reliance on the soundness of the banks was by no means unnatural. Experience had shown that the public loss through bank failures in Scotland was quite exceptional, and never serious. The total loss sustained up to the present time is quite insignificant. Thus a habit of unsuspicious confidence had grown up which could not easily be disturbed. Had it not been for this, the Western Bank would not have enjoyed the great popularity which distinguished it from all its rivals. It was supposed to embody the solidity of the old banks with the broad-mindedness of modern principles. It is not to be wondered at, that the sudden shock of its failure should have, for the moment, driven the public to an opposite extreme of distrust. The distrust, however, was of very short duration; for it soon became evident that, whoever might suffer, the creditors would not. It was noticeable, also, notwithstanding the great stress laid by statesmen and economists on the dangers of private note-issues, that the note-issues of the Scotch banks did not contribute in the slightest degree to the causes of the crisis, and were not particularly the subjects of the panic which ensued.

The Western Bank of Scotland had a fully paid-up capital of £1,500,000, which was one half larger than the

capital of any other bank in Scotland, except the Royal Bank. The shares were of £50 each, and sold in 1841 at £71, while shortly before the stoppage they stood at £84 5s. The bank had 101 branches, which was more than any of the other banks had established. Its note circulation, although declining, was among the highest, and testifies to the great extent of its business. Its deposits, although reduced by rising distrust in Glasgow, amounted at the time of failure to £5,306,569 (a very large sum for those days), of which £4,402,973 was held by the branches. It would seem that of the total deposits less than one-tenth consisted of sums under £50. As we have seen from time to time, the system of management of the Western Bank was not only directly opposed, in some essential points, to the principles adopted by the other banks, but had actually led it into grave embarrassment on more than one occasion. Assistance had been given to it on promises of amendment, but no sooner was the immediate danger past than the old system was resumed. The great point, which not only the Edinburgh banks, but also the Western Bank's correspondents in London, had urged on the bank's attention, was the danger of dispensing with a large reserve of high-class convertible securities. To a certain extent the advice, backed as it was by intimation that continued disregard of it would lead to exclusion from the banking concert, was acted on. But it is evident that the adoption of the principle was little more than nominal. A still more serious evil was meanwhile undermining the foundations of the bank. Neglect to provide proper reserves endangered the bank as a going concern; but the reckless manner in which the directors were lending their money on a few large risks was courting

ruin. One of their wildest schemes was establishing a discount agency in New York, which eventually occasioned a loss of £185,250.

Owing to their close connection with New York business, the troubles in America, which reached a height in September, occasioned great embarrassment to the Western Bank. On the 15th October, Mr. John Taylor, the manager, resigned office, and was succeeded by Mr. J. S. Fleming, who was then law secretary of the bank, and is now general manager of the Royal Bank of Scotland. For a week negotiations were conducted with the Edinburgh banks, with the object of obtaining assistance; but this was refused, pending the result of application to the Bank of England. That being unsuccessful, the Edinburgh banks at length advanced £510,000 in consols. This was on 29th October. The crisis in London increased, and the want of confidence in the Western Bank became serious. Further aid was asked from the Edinburgh banks, but was refused. The failure of Dennistoun & Co., of London and Glasgow, with liabilities of over £2,000,000, on 7th November, brought the crisis in Scotland to a focus. (The firm were only temporarily embarrassed by want of remittances from America.) The note exchanges continuing to run heavily against the Western Bank, the directors intimated to the Bank of Scotland their probable inability to meet the settlement of 9th inst. At two o'clock on that day the doors of the bank were shut, and the branches were directed not to re-open next morning. The total liabilities of the bank at the stoppage were £8,911,932, exclusive of capital and rest, amounting together to £1,726,777. After some attempts at reconstruction, the bank went

into voluntary liquidation. Two calls, amounting together to £125 per share, or 250 per cent. on the capital, were made on the contributories. These produced a total sum of over £2,000,000, of which, however, more than £800,000 was subsequently returned. The net loss to shareholders, including capital at par and reserve fund, was £2,816,354.

On the failure of the Western Bank, the other banks hesitated to accept their notes. This increased the public panic, and a run on the banks took place. On the 11th, however, the banks resolved to take Western notes in course of business, and influential statements of confidence in the ability of the Western Bank to meet all its engagements having been made, the excitement rapidly subsided. On the 10th November, the City of Glasgow Bank suspended payment, with liabilities to the extent of £5,107,142. It re-opened on the 14th December.

CHAPTER XXI.

CONSOLIDATION OF SCOTTISH BANKING—THE CRISIS OF 1866.

THE political experience of Great Britain from 1857 to 1866 was one mainly of peace; but in other quarters of the globe several severe wars occurred which sometimes endangered its neutrality. Indeed, throughout this period it may be said that Britain's condition was rather one of armed neutrality than of perfect concord with the other powers. In 1859 France and Sardinia conducted a successful campaign against Austria, which was the commencement of the formation of the kingdom of Italy. In the middle of the same year Britain went to war with China, one incident of which was the repulse of our fleet off the Peiho. This war was continued almost throughout the succeeding year, during which Garibaldi commenced his career as the great liberator of Italy, at Marsala, in Sicily. The most important event in the world's history for the year 1860 was, however, the secession on 19th December, of the State of South Carolina from the great American Union—an action which was speedily followed by the secession of the other Southern States of the Union. Early in 1861 the seceding States numbered eleven, united as an independent political organisation, under the designation of the Confederated States of America. The civil war which ensued assumed enormous proportions: it was protracted and bloody, involving vast expenditure; and its direct and indirect effects on the trade and financial

conditions of the world were very great. At one time, moreover, Britain was on the eve of a rupture with the Federal States, owing to the violation (8th November, 1861) of the neutrality of one of her mail steamers by the American war-ship *San Jacinto*—an incident popularly known as the *Trent* affair—two commissioners from the Confederated States being forcibly taken from the British vessel while on their voyage from Havanah to Southampton. Before the close of the year, however, reparation having been made by the Federal Government, all danger of war had passed away. A small war with the natives of New Zealand broke out at the close of 1863, and another with Japan in the succeeding year, in which the French, Dutch, and United States fleets were allied with the British. In January, 1864, Britain was nearly involved in war with Prussia and Austria, in defence of Denmark; but, at some sacrifice to her prestige, she refrained from an interference which must have been attended with very serious results. The close of the American civil war was signalised by the assassination (April 14) of President Lincoln. Prussia and Italy were at war with Austria in 1866, but in that conflict Britain had no direct interest.

Meanwhile the arts of peace had been progressing satisfactorily. No great inventions or discoveries revolutionised the conditions of trade or society, but existing facilities were developed and availed of to a great extent. An important step in ocean navigation was taken in the building of the *Great Eastern* steamship, which was launched on the Thames on 31st January, 1858. Unfortunately this great project was beyond the knowledge of its designers and the requirements of the time; and it proved an almost total financial failure. The *Great Eastern*

was practically useless until the comparatively small value to which it fell permitted it, in after years, to be successfully employed in the laying of ocean telegraph cables. This department of business was developed very widely during the period of which we are treating. On 5th August, 1858, the first Atlantic cable was successfully laid, and congratulatory messages were interchanged between Britain and the United States. This was speedily followed, however, by the grievous disappointment of a total cessation of communication, through some flaw which the electricians of that time were unable to deal with. In other quarters of the world telegraph cables were laid with more success. From an economic point of view, the period extending from 1857 to 1866 displays the usual features of depression, activity, speculation, and collapse; but, probably owing to the greater complications consequent on advancing civilisation, and to the disturbing influence of the striking political events to which we have referred, these characteristic transitions are not so clearly marked as in some previous periods. One noticeable point is that the period of depression following the crisis of 1857 was of unusually short duration. Within two years a marked advance of prosperity had occurred; and the *Times* was able to record that, with the exception of the shipping interest, "every branch of industry is flourishing as abundantly as at any former period, and the England of 1860 is richer, stronger, and better contented than the wealthy and prosperous England which in 1850 commanded the respect and envy of the world." Increasing commercial activity reached the phase of speculation in 1862 and 1863, when bubble companies—principally banking and trading—became numerous, and foreign loans

formed the subject of a monetary mania. In the former year, however, a serious counteracting influence came into play. This was the so-called "cotton famine," consequent on the blockading of the ports of the Confederated States of America. By this event the cotton industry of Lancashire was paralysed, and large numbers of operatives were thrown out of employment. The nation came nobly forward to avert the danger of starvation which threatened the working classes of the district; and, although great loss occurred by the cessation of this industry, the nation was able to bear the strain with surprising ease. The money market, however, became much affected towards the close of 1863, and during almost the whole course of the next year the value of money was very high. Indeed, it may be said that, at this time, there occurred one of those semi-crises sometimes observable during the course of a decennial period. This speedily passed away, and the nation resumed its career of prosperity unchecked, until inflated credit and over speculation brought about their invariable sequel. It is probable that joint-stock enterprise received a great stimulus by the passing of the Companies Act of 1864, under which the formation and incorporation of all kinds of companies was much simplified.

The record of banking in Scotland during this period is marked in the main by increasing prosperity, development, and consolidation. Only one instance of adverse experience occurred; and it belongs properly to the immediately preceding period. The Edinburgh and Glasgow Bank—whose career we have already sketched—got into a condition of embarrassment in the middle of 1858; or, rather, it then found the attempt to recover from the

discredit into which it had fallen during the recent crisis hopeless; and it was fain to seek repose by amalgamation with the Clydesdale Banking Company. This operation conferred no benefit on the shareholders of the Edinburgh and Glasgow Bank, for they received no consideration for the goodwill of their business. They were indeed freed from danger of calls; but they lost their whole right of property in the bank. Had they shown sufficient courage in facing their difficulties, they might have come out of the struggle in a much more satisfactory manner. As it was, the new connections secured by the Clydesdale Bank through this amalgamation, obtained practically without any outlay, had a material effect in improving their business. The number of their branches was increased by more than twenty offices of the Edinburgh and Glasgow Bank, many of which were believed to be very profitable concerns. Another amalgamation secured by the Clydesdale Bank was that of the Eastern Bank, in January, 1863. In this case a very handsome price was paid for the business, principally in stock of the former bank. By these two purchases the authorised circulation of the Clydesdale Bank was extended by £170,293.* Next year the Dundee Banking Company was amalgamated with the Royal Bank of Scotland—the transaction being accomplished by a transference of stock of the latter bank to the Dundee Bank shareholders. The Royal Bank thus acquired six new branches, and an increase of authorised circulation to the extent of £33,451, raising it to £216,451. The Commercial Bank of Scotland doubled its capital by two

* Previously the authorised circulation of the Clydesdale was £104,028; that of the Edinburgh and Glasgow, £136,657; and that of the Eastern, £33,636, making £274,321 in all.

allocations of stock, by way of bonus, to its proprietors, each to the amount of £200,000—the first being made in 1859, and the second in 1864. This was accomplished by a transference from the reserved profits of previous years, and occasioned much adverse criticism on the part of previous shareholders who had sold out in ignorance of the existence of so large an accumulation of profits. The paid-up capital thus became £800,000. This proceeding was quite in accordance with traditional usage, the old banks having repeatedly acted in this way. But the more open system of accounting to shareholders, adopted by the Scottish banks shortly after this time, and since established as a yearly practice in the publication of balance sheets, makes one now regard such a transaction as a relic of a by-gone age; as, indeed, it has become otherwise, through the practical impossibility now of making such large profits as were then obtainable. On February 6, 1863, the Scottish banks conjointly took an important step, which had probably been forced upon them by the largely-increased extent of their branch systems. This was a general instruction to their branches to follow at once changes made by the Bank of England in the minimum rate of discount. The effect of this was to bring the banking system of Scotland into more immediate sympathy with the monetary system of the world than had formerly been the case. It was also an evidence of the increasing importance of Scottish banking as part of that system.

The year 1866 is described in contemporary history as "gloomy, eventful, and ominous." In its financial aspect it was one of great disturbance in the money market, of bankruptcies of merchants and of bankers. The year opened with the bank minimum rate of discount at 7 per

cent., from which it was soon raised to 8 per cent. It thereafter gradually fell to 6 per cent. until May. It then rose with great rapidity. On 3rd May the rate was placed at 7 per cent., on the 8th at 8 per cent., on the 11th at 9 per cent., and on the 12th at 10 per cent. At that point it stood until 16th August, when it fell to 8 per cent., and thereafter gradually diminished to 3½ per cent. at the close of the year. Symptoms of the approach of a state of crisis seem to have become apparent towards the close of 1865; but it was not before the commencement of the new year that anything of a marked character occurred. Then one or two English country banks failed. Subsequently uneasiness began to exist in London. The Joint-Stock Discount Company, Limited, suspended payment on 7th March, with liabilities amounting to £3,657,229, and other bankruptcies took place. But the phase of crisis was not reached until 10th May, when Overend, Gurney & Co., Limited, failed, with liabilities to the extent of £18,727,915. This was a crushing blow, for not only was the amount involved enormous, but this discount house was relied on as a strong establishment. The shock to credit was almost unprecedented, and general panic ensued. The Agra and Masterman's Bank, Limited, and the Consolidated Bank, Limited, were forced to suspend for the time being; and the Bank of London and other establishments went into liquidation, while even the strongest were doubted. The credit system was thrown into a state of paralysis. But this was not long continued. The Government, taught by experience, at once authorised the Bank of England to exceed the limits of their circulation fixed by the Act of 1844, on condition of the minimum rate of discount being raised to 10 per cent. This was done on

12th May, and the panic was at an end when men knew that accommodation could be procured. Thus, for the third time, the great banking Act of 1844 was infringed, under the responsibility of the Government, for the salvation of the business of the nation.

The crisis did not affect banking in Scotland to any serious extent. No panic occurred, nor did any distrust in the banks manifest itself. Indeed, the banks rather gained than lost by it; for while they benefited by the high rate of interest, their credit was improved by the steady way in which they came through this time of trial. Shortly before this the National Bank of Scotland had been tempted to essay an inroad on the London field, which was successfully carried out; and it is understood that, as a result of this crisis, their business there was established on an extensive basis. It was the commencement of an invasion which was continued by others of the Scottish banks in later years, and which led to complications, the end of which, it may be, has not yet been reached.

CHAPTER XXII.

THE INSTITUTE OF BANKERS IN SCOTLAND.

It will be proper, at this point, to devote some consideration to the establishment of an institution which has exercised an important influence on the banking world of Scotland during the few years of its existence, and which, if prudently conducted, is calculated to materially benefit future generations of bank officers, and to elevate banking to a position partaking somewhat of the nature of a scientific profession.

Up to the time of the formation of the Institute of Bankers in Scotland, the education of bankers in the theory and practice of their profession—nay, even the ascertainment of their most ordinary educational acquirements—was of the most haphazard description. Not the smallest attempt was made either to encourage, or to provide means for the study of, the theory of banking. It may be thought that the practice, at all events, would be learnt in the discharge of daily duties; and to some extent this was necessarily the case. But no effort was made to induce young bankers to acquire any but a mechanical knowledge of details; and from the thorough way in which their interests were neglected by their superiors, there was instilled into their minds a conviction of the uselessness of efforts at self-improvement. Their directors and managers virtually—sometimes actually—told them that they need not hope for promotion. The more active-minded of the young men, who would think and study in

spite of all discouragements, were either snubbed or left to cool their ardour in the shade of neglect.

It was the practical experience of this state of matters which led the present author to write an article, which appeared in the *Money Market Review* of 2nd May, 1874, advocating a more systematic consideration of the interests of young bankers, as at once advisable from motives of justice and of policy. Among other suggestions it was proposed that a system of examinations should be established, in connection with which certificates would be issued to the more proficient candidates. It is highly probable that these suggestions would not have produced any practical result, had not the idea been taken up by a gentleman possessing the influence and energy necessary for conducting it to a successful issue. To Mr. John Gifford, late cashier of the National Bank of Scotland, belongs the credit of inaugurating and effectively conducting the desired reformation. Mr. Gifford addressed a letter to a literary society of bankers, of which he had at one time been president, urging them to consider the advisableness of establishing a system of classes, courses of lectures, and examinations, and the provision of libraries, bursaries, and all necessary accessories for the acquirement of financial and general knowledge. The society took the matter up warmly, and referred it to a committee to consider and report as to the feasibility of such a scheme. In the capacity of secretary to that committee, it devolved on the present writer to lay some practical scheme before the members. He accordingly proposed that the society should not attempt to undertake such responsible duties, but should promote the institution of a new association, which would be representative of the profession as a

whole, in all its grades, throughout the country, and, therefore, commanding an amount of authority and influence sufficient to give confidence in its diplomas, and to secure general interest in its proceedings.

On this basis a scheme was drafted, which secured the approval of the society. It provided for the formation of a provisional committee, partly appointed by the banks and partly by the society. After some untoward hesitation on the part of some of the banks, which required all Mr. Gifford's tact and good management to overcome, that committee was eventually constituted. The practical designing of the edifice was a laborious work; but the members of the committee were earnest for its completion, and spared no effort to secure its accomplishment. Mr. Hamilton A. Hotson, now assistant-manager of the Bank of Liverpool, undertook the duty of preparing the constitution of the new association (whose name was until almost the last moment a matter of uncertainty); and it speaks well for his foresight and discretion that, with the modifications made by the committee, eight years' experience has not produced a single alteration on it.

The movement, which at first was confined to Edinburgh, received a great accession of vitality when Mr. James A. Wenley, then manager of the Bank of Scotland in Glasgow, began to identify himself with it. He organised a committee in Glasgow, in correspondence with that in Edinburgh, and was the means of creating and directing a widespread enthusiasm in the west of Scotland in favour of the scheme. But it was not alone in the west that his influence was felt. To a very great extent the scope and action of the Institute were thenceforth moulded by him. No important step was taken in

the movement which was not either suggested by him, or first received his approval. He threw himself into the work with an amount of ardour and personal exertion which must have occasioned him much self-sacrifice, but which at the same time enabled the new vessel to be launched with much *éclat*. He was also instrumental in procuring from the banks promises of recognition and material support.

A meeting of those gentlemen who had formally intimated their adhesion to the proposed association was held in the Bank of Scotland, Edinburgh, on the evening of the 6th July, 1875, when the Institute of Bankers in Scotland was constituted, with a membership of about 200. Mr. David Davidson, at that time treasurer of the Bank of Scotland, who had warmly espoused the cause, was elected president. Three vice-presidents, among whom Mr. Gifford naturally found a place, and other office-bearers, were elected at the same time. The Council, consisting in all of twenty-one members, embraced representatives from all the banks in Edinburgh and Glasgow. Nearly all of these held official position in the banks, so that the Institute at once secured an influential position.

In spite of the numerous difficulties which invariably beset new schemes, the success of the Institute was both rapid and marked. The membership, beginning, as we have said, with 200, was reported to the first annual meeting as 582. Two years later (1878) it stood at 925. Owing in great measure to the untoward effects of the crisis of that year, involving the failure of the City of Glasgow Bank, which itself contributed 107 names, the roll has since dropped to 759. That number, however, is

in itself satisfactory proof of the continued interest of the profession in the proceedings of the Institute. For it must be borne in mind that, since 1878, it has become almost impossible to gain admission, except through examination. The examinations have been attended with much success, more than 350 candidates having presented themselves. The chief centres of the Institute's operations have from the first been at Edinburgh and Glasgow, but more recently, through the influence of the managers of the North of Scotland Bank and Town and County Bank, a centre has also been established at Aberdeen. Besides the annual examinations, there have been regular courses of lectures on banking, financial and literary subjects, political economy, banking law, &c. The other operations of the Institute have included annual essay competitions, and the establishment of libraries and reading-rooms for the use of all members of the profession. It may be interesting to notice that during the first eight years of its existence, the Institute has raised, towards the accomplishment of its objects, about £4500, of which nearly £2000 have been contributed by the members themselves, the remainder consisting of subsidies from the banks, special donations, and miscellaneous receipts.

It cannot be doubted that the Institute has been instrumental in fostering, to a large extent, the spirit of self-improvement among the younger members of the banking profession; and, in a less degree, it has tended to advance the scientific study of banking and economic subjects. It has also been the means of enabling energetic young bankers to obtain lucrative situations in English and Colonial banks, by the use of its examination certificates. That it has not accomplished more is hardly its

fault. It is often said that it does not improve young men's chances of promotion in their own banks; and it must be admitted that, while the banks have acted handsomely in regard to pecuniary aid, they have not given the still more desirable assistance of recognising its certificates in an official manner. Too little allowance, however, is made for the great difficulties in the way of an immediate adoption of such action. Old officers cannot be overlooked in favour of young ones, however brilliant their qualifications; and, besides, the mere possession of certificates of knowledge does not prove suitability for office. But the banks have been more passive than was advisable; and the Institute has suffered by the neglect with which those who have identified themselves with its operations have been treated in most cases.

Although the Institute of Bankers in Scotland was the first association of its kind which was successfully established, an important attempt of a somewhat similar nature had been made previously. About twenty years ago, the late Mr. W. H. Logan, banker, Berwick-on-Tweed, projected an Incorporation of Bankers, which seems actually to have been formed, so far as the enrolment of members is concerned, although it never came into active existence. The scheme was revived by a correspondence in the *Banking Magazine* during 1870; but although Mr. Logan again gave a detailed account of its objects, it was not proceeded with. On the establishment of the Institute in Scotland, the idea was warmly taken up in Ireland; but the state of that country prevented a successful issue. The bankers of London were more fortunate in efforts which they made in the same direction,

and the well-known Institute of Bankers was founded under influential auspices. Their Journal has rendered excellent service to the profession, both in the way of giving information to young bankers and in ventilating questions of interest; and their examinations and other operations must have been productive of good results, similar to those accomplished in Scotland.

CHAPTER XXIII.

THE RAID ON ENGLAND.

THE period with which we have now to deal, namely, that extending from the great crisis of 1866 to the (in some respects) even more disastrous convulsion of 1878, is full of stirring incidents in the political, commercial, and financial world. Early in 1867, Fenianism developed itself to such an extent as considerably to retard trade (especially that of British manufacturers with Ireland), and seriously to alarm the public mind. Towards the close of that year the first of those dastardly conspiracies, which have since become so common in pursuance of the so-called "policy of dynamite," was manifested in a fatal explosion at the Clerkenwell House of Detention in London. Wars, in which Britain was either directly engaged, or seriously interested, succeeded each other with but little intermission. The French troubles in Mexico in 1867, although the sequel to British action in connection with France, did not compromise this country; but, in the succeeding year, Britain was forced to undertake a military expedition to Abyssinia, which, under the direction of General Napier, fortunately proved a great success. The cost was, however, very serious. Next year the Eastern question again became troublesome; and in 1870-1 the great struggle between France and Germany, with its attendant disorganisation of commerce and finance, took place. This was immediately followed by the outbreak of hitherto suppressed villainy in Paris,

which manifested itself in the temporary establishment of the Commune. In 1873-4 Britain was engaged in war against the Ashantees in Africa. Soon afterwards the Eastern question assumed a very grave aspect; and, to aid Egypt and to protect her Indian interests, Britain effected the purchase, in 1876, of the Khedive's Suez Canal shares at a cost of about £4,000,000. Next year hostilities broke out between Russia and Turkey, and ended, in 1878, by the submission of the latter State. In the readjustment of matters, Britain took a leading part; but the warlike policy of this country, though necessary, was very costly.

Meanwhile the arts of peace had not been neglected. There was a great exhibition of the products of all the world in Paris in 1867, at which this country was well represented. Several great industrial works were accomplished, such as the Union Pacific Railway in the United States, and the navigable canal from the Mediterranean to the Red Sea, both of which, but especially the latter, were destined to greatly influence the commerce of Britain. They were both opened in 1869. In Scotland, a great engineering feat was accomplished by the opening of a railway viaduct across the river Tay at Dundee. But, unlike all other great engineering projects carried out in Britain, the sequel was destined to make this bridge more a type of inferior workmanship than a monument of national enterprise.

The crisis of 1866 was mainly financial in character. Trade, both home and foreign, was good at the time when it occurred. A change, however, speedily followed on the distrust engendered by the financial disasters which took place. This was increased by a railway crisis which occurred in the middle of 1867, and by the pressure of

calls in connection with joint-stock companies formed in great numbers previous to the crisis. It is noticeable, however, that the trade of Scotland did not so readily lose its vitality. The crisis had not affected it to a serious extent; but eventually it suffered in sympathy with the trade of England. Depression lasted until the middle of 1870, four years after the crisis, and then a decided revival occurred. The Franco-German war had a bad influence; and in the next year there was much disturbance on account of the payment of the indemnity and the loans negotiated in connection therewith. But no sooner had matters been fairly settled, than trade at home and abroad expanded, almost suddenly, to unparalleled proportions. For fully a year this high-pressure trade was continued. But the harvest of 1872 was deficient, and there was a turn in the tide of prosperity. It soon became evident that there had been great inflation. The last five years of the period marked increasing depression. By the month of June, 1875, the bad state of Indian trade manifested itself conspicuously in the collapse of the great house of Alexander Collie & Co. Following, as it did, a series of heavy failures in the iron trade, this disaster produced a semi-crisis, in the course of which a considerable number of other firms came down. Heavy losses were entailed on bankers, one or two Scotch banks suffering severely.

For some time after the crisis of 1866 the state of banking was, as might naturally be expected, very unsatisfactory. There was a prevalence of low rates, and much difficulty in profitably employing capital. But this state of matters gradually wore of, and banking in Scotland entered on a new phase of extension. So early in

the period as 1869 about a hundred additional branches had been opened, many of them being sub-offices in Edinburgh and Glasgow. During the height of commercial prosperity, the number of bank offices rose to nearly nine hundred, or an increase of nearly three hundred in seven years. But the process was not checked by the cessation of prosperity, for year by year the number rose until, in 1878, there were fully nine hundred and fifty bank offices.

In view of the rampant speculation in bank shares which had been manifested prior to 1866, an Act (popularly known as Leeman's Act) was passed in 1867, prohibiting the purchase and sale of bank stock, unless the specific stock to be transferred was definitely indicated, and misrepresentation was made a misdemeanour. Although the intention of the Legislature in this matter was highly laudable, the Act has not proved a success. It does not appear that it is unworkable, or even unsuitable to the requirements of investors, but it is so uncongenial to speculators that they systematically evade it. This they can do very easily, as there is no one whose special interest or duty it is to question their actions. There is reason, however, to believe that, in a passive way, the Act has had a beneficial tendency; for, although speculation in bank shares is still carried on, there is a prevailing feeling against it. The comparative neglect of bank shares by speculators may be due in great part to the greater attractions of other securities; but undoubtedly the spirit of the directions of the Legislature is often followed in the business world when the letter seems to be directly violated.

In 1868, the beginning of the end of the liquidation of

the Western Bank of Scotland came into view. In that year there were two payments, the one of £7 10s. and the other of £3 per share, made to the solvent shareholders by way of return of surplus funds. This completed eight returns, amounting in all to £68 per share, on which £175 in all had been called, including the original sum of £50. In other words, £250 per cent. had been called for the purposes of the liquidation; and of this, £136 per cent. had been returned. In 1870, the outstanding liabilities were assumed by the National Bank of Scotland in consideration of a payment of £8448 1s. 4d. The final completion of the liquidation was, however, delayed for other three years by the dependence of litigation with wealthy ex-directors.

The extension of Scottish banking, to which we have already referred, was not wholly confined to Scotland. The National Bank of Scotland had opened an office in London in 1864. This step having seemingly been attended with much success, the Bank of Scotland imitated the example set a few years later. The Royal Bank of Scotland, in 1874, also opened an office in London, having obtained a special Act of Parliament, authorising them to do so, in the previous year. These successive movements were by no means relished by the London bankers, and they were also jealously objected to by English provincial bankers, who felt themselves aggrieved by the permission given to Scotch issuing-banks to establish themselves in London, while retaining their powers of note-issuing elsewhere—a privilege which was denied to English bankers. The heat of opposition was, however, gradually expending itself, when the Clydesdale Banking Company made a sudden raid on the English

preserves by planting three branches in Cumberland, nominally for the convenience of their customers in the South of Scotland. This was the signal for the renewal of the contest on a grand scale. The battle became general all along the line. London bankers, London and provincial bankers, and English provincial bankers joined in protecting their common interest. The conflict was carried into Parliament, where Mr. Goschen introduced a bill, the object of which was to drive the Scottish banks back to their own country. His efforts, however, although strongly supported, ended in the temporary compromise of a parliamentary committee. After arduous labours, and the accumulation of a large mass of more or less valuable information, the committee reported to the House without making any recommendation other than their re-appointment next session. This suggestion was not, however, acted on; and very soon all the other large Scottish banks, except the Commercial Bank of Scotland, opened offices in London without more opposition than that conveyed in indignant growls and threats of future vengeance.

A few minor banking incidents fall to be recorded. The Bank of Scotland purchased, in 1868, the business of the Central Bank of Scotland, whose head office was in Perth. In 1873, the same bank obtained a seventh Act of Parliament, increasing its authorised capital from £1,500,000 to £4,500,000. The extra powers thus given have as yet only been availed of to the extent of £375,000, of which £250,000 was called up. This issue of stock was made in April, 1876, and, as it was made at a premium of £375,000, the bank was enabled to raise its reserve fund to £750,000, and also to write off the balance of the price paid for the Central Bank business.

During the currency of this period, the volume of Scottish banking business had largely increased. In 1865, the total liabilities were about 77 millions. Seven years later they were 96½ millions. In 1877, they reached their highest point, namely, 108¾ millions. Next year they dropped to 106 millions, even including the balance sheets of the City of Glasgow and Caledonian Banks. This reduction, however, was more probably owing to withdrawals from certain banks who balanced after the crisis of 1878 than to any general decrease in the liabilities of the banks during the year.

CHAPTER XXIV.

THE CITY OF GLASGOW BANK.

THE first three-quarters of the year 1878 are noticeable for little except a continuance of depression in the national industries and commerce. Heritable property, which is always last in being affected by alternations of prosperity and adversity, began to show symptoms of depreciation; but prices were maintained to an extent which seemed to justify hopefulness of the future, and proved that there was little pressure on holders. Indeed, the nation did not show signs of impoverishment from the long-continued experience of bad trade. The Scottish banks seemed to be in a satisfactory state; if money was accumulating in their hands from the want of proper channels for its profitable employment, they were at least able to maintain their dividends at the former rates. There was nothing in their reports to indicate the imminence of untoward events. People were rather looking and longing for a return of prosperity, than groaning under the experience of adversity.

In these circumstances, rumours, which first received utterance in the London correspondence columns of the *Glasgow News*, towards the end of September, regarding difficulties on the part of one of the banks in Scotland, were received with incredulity. In banking circles only one opinion as to which bank was referred to received any support. It was freely said that if any of the Scottish banks was in a weak condition, it was the City of Glasgow

Bank. But there was no alarm, for it was confidently believed that the report would prove to be a stock exchange *canard*. So little effect had it, that the prices of Scottish bank stocks were not materially affected; and in a very few days it almost ceased to be spoken of. There was, however, a general pressure of sales of pledged railway and other stocks, indicative of impending disturbance; but this circumstance did not attract general notice. Notwithstanding this extraordinary public confidence, negotiations were all the time being carried on by the City of Glasgow Bank and the Edinburgh banks, through the Bank of Scotland, with the object of obtaining assistance. As far as its business in Scotland was concerned, the City of Glasgow Bank was not in the slightest degree inconvenienced. The depositors were sleeping as soundly as if their money had been invested in Government securities, and noteholders would not have accepted sovereigns in exchange. The London money market, however, had begun to feel that it had absorbed a sufficiency of City Bank paper. Unable longer to retire maturing bills with new paper, the bank had the greatest difficulty in taking them up, and saw that in a very short time its available resources would be exhausted. In these circumstances it sought an advance from the other banks, to enable it to tide over its difficulties. It would seem that, in consequence of the prevalence of rumours about the position of the bank, the Bank of Scotland had, on 11th September, urged the City Bank to retire a large amount of their acceptances; whereupon the latter bank asked if they might rely on assistance from the other banks to the extent of £200,000 or £300,000—an estimate of requirements which they subsequently extended to

£500,000. Further negotiations having revealed the fact that the bank was involved with a few firms to the extent of some millions sterling, on the 28th September an examination of the books by an Edinburgh accountant was decided upon. After receiving his report, the banks declined to give any assistance; and, on the 1st October, the doors of the City of Glasgow Bank were closed at the usual hour, never more to be re-opened for business.

The announcement of the suspension of the City of Glasgow Bank, which appeared in the newspapers of the 2nd October, had a paralysing effect throughout the business community, and feelings of alarm and distrust arose among the general public. The City Bank, although never in the enjoyment of the thorough confidence of the other banks, was known to have a large proprietary whose liability was unlimited, and had therefore been always trusted as much as any of the others. In the eyes of the general public it obtained a full share of credit. Although the youngest of the existing Scottish banks, it had, by a constant policy of branch extension, built up a deposit business of over £8,000,000; and, as its reports were always framed so as to show steady progress, it was in many quarters regarded as the most active and prospectively prosperous bank in Scotland. Its customers and shareholders would sometimes taunt the officials of the older banks with being "old-wifish" and slow of movement. Its stock, moreover, commanded a good price in the market. It afterwards appeared that there was actually a considerable pressure of sellers, and that the price was maintained only by continual purchases on account of the bank itself; but these facts were unknown to the general public, who naturally estimated the posi-

tion of the bank to a great extent by the stock exchange quotations. The revulsion of feeling from confidence to distrust was naturally very strong. People had believed so thoroughly in the banking system, that the failure of one member of the circle tempted them to lose belief in all. But it must be said that the public acted with wonderful prudence and self-control. The action of the other banks greatly tended to this result; for they at once announced that, with a view to lessen the inconvenience of the stoppage to the public, they would receive, in the ordinary course of business, the notes of the City Bank which were in circulation.

From the first no hopes of resuscitation were held out by those conversant with the bank's affairs; and, although for several days no details of the extent of the disaster were forthcoming, fears of a very grave state of matters were steadily increased. These were augmented by the failure of some London and East Indian houses, and rumours of further suspensions. On the 5th October, Dr. M'Grigor and Mr. Anderson, who had been asked to examine into the state of the bank, reported that it would be advisable to wind up the business; and a meeting of the proprietors was summoned for the 22nd of the same month. Meanwhile the banks were actively engaged in making arrangements for accommodating City Bank depositors who might require the use of their money, and for taking up branch offices of the bank. Until the 19th inst. almost nothing transpired regarding the position of the bank; but failures in various parts of the country were daily announced, some of them being for heavy amounts. Nevertheless, a somewhat easier feeling prevailed throughout the community. It was, therefore, with

feelings of surprise, indignation, and dismay that the public read the report of the investigators, which was issued late on the evening of the 18th. The *Scotsman* of 19th October records that "the report of Dr. M'Grigor and Mr. Anderson brings out a state of matters which far exceeds the anticipations of the most despondent shareholder. The actual loss amounts to the almost fabulous sum of £6,190,983 11s. 3d., which, deducting the capital of £1,000,000, leaves £5,190,983 11s. 3d. of a deficiency to be made good by the shareholders. Amongst other startling disclosures, the investigators say that the shareholders had been led to believe the bank had lent upon credits less than was the fact by £1,126,764; that the bank had good securities belonging to themselves absolutely more than was the fact by £926,764; and that there was more reserve gold in the bank than was really the case by £200,000. The total amount represented by bad debts, estimated at £7,345,357 15s. 6d., the bank had been in the habit of treating in the balance-sheet as an available asset. Four debtors under this head owe the bank £5,792,394, while the securities held show a deficit of £4,269,957. The investigators add that 'it is by no means improbable that our own estimate is beyond the mark, as the bank's title to much of what we have entered as good is of a very imperfect description.' "

Such, in abstract, was the frightful statement presented to the shareholders and the public as the first official account of the position of the bank's affairs. It is no exaggeration to say that people were stupified by the astounding disclosure. No such failure had ever previously been known. As was naturally to be expected, public and private comment was of the fiercest description.

Yet the attitude of the shareholders and of the public was that of dignified self-restraint. Righteous indignation was hurled at the offenders; but there was little tendency to confound the innocent with the guilty. One or two of the banks suffered for a short time from diminished confidence on the part of the public; but the satisfactory manner in which they met their engagements speedily restored their credit. Most of the banks were not exposed to any actual trial; and the older banks reaped a rich harvest of business from the suspension.

Immediately after the publication of the report of the investigators as to the affairs of the City of Glasgow Bank, the directors, manager, and secretary of the bank were arrested on a charge of fraud—the latter, however, being subsequently accepted as a witness. This action of the authorities met with the unanimous approval of the public. Indeed, considerable excitement was created by an apparent probability that the state of the law would necessitate the prisoners' liberation on bail for £300 being tendered. But to the charge of fraud, that of theft was added, and only one of their number was permitted to avail himself of the privilege. The trial commenced before the High Court of Justiciary, at Edinburgh, on 20th January, 1879, and lasted for eleven days. The jury found the prisoners guilty of fraud, and next day, 1st February, the Court sentenced two of them to eighteen and the others to eight months' imprisonment.

The first meeting of the shareholders, after the stoppage, took place in Glasgow, on 22nd October, 1878. It passed off with remarkable quietness, due in great measure to the absence of the imprisoned directors, but also, doubtless, to the utter futility of remonstrance. It was

resolved unanimously to liquidate the affairs of the bank voluntarily. Four liquidators were appointed, and a committee of shareholders was nominated to consult with them. A few days afterwards a call of £500 per cent. on the capital stock was announced, payable in two instalments, on 22nd December and 24th February following. This step naturally elicited much comment, some persons expressing surprise at the largeness of the call, others considering that it should have been much larger. For the most part, however, the action of the liquidators was viewed as a prudent preliminary step; it being thought that a smaller sum would have been quite inadequate, and that one materially greater would have seemed harsh as a first measure.

A number of failures followed immediately on the stoppage of the bank. Of these several very large ones were those of firms in direct connection with the bank, and through whose operations the disaster had been chiefly produced. The most important of these firms was James Morton & Co., whose liabilities amounted to about £2,500,00. Others were Smith, Fleming & Co., with £1,600,000; Matthew Buchanan & Co., £1,310,000; John Innes Wright & Co., £750,000; Glen, Walker & Co., £445,000; and Potter, Wilson & Co., whose affairs, including the private estate of the senior partner, showed a surplus of about £70,000. From day to day numerous other failures occurred—notably that of Heugh, Balfour & Co., with liabilities to the amount of £400,000, and trifling assets. Although technically a distinct suspension, that of the Bank of Mona was practically part of the failure of the City of Glasgow Bank, with which it was amalgamated, while retaining its corporate identity. Another

bank failure was that of J. & J. Fenton & Sons, at Rochdale, who, while nominally private bankers, were actually stockjobbers. Subsequently (9th December), a more important English bank, the West of England and South Wales District Bank, was forced into liquidation; but it was afterwards resuscitated as the Bristol and West of England Bank, Limited.

One of the most painful consequences of the disaster—the more painful from having been perfectly unnecessary—was the suspension of the Caledonian Banking Company. It most unfortunately happened that that bank had taken over from a customer £400 of City Bank stock, in security for an advance, and had thus become liable as a shareholder. The excitement of the time exaggerated the extent of probable liability of wealthy shareholders, the opinion being expressed that even the total estates of all the shareholders, including the Caledonian Bank, might be insufficient to meet the requirements. This, of course, was an erroneous supposition; but allowance must be made for the heated imagination of people who were dealing with a crisis without precedent, and for the fact that the question of the personal liability of trustees holding stock was in suspense. In the event of trustees having been absolved from liability, the pressure upon ordinary shareholders would have been greatly increased. The shareholders of the Caledonian Bank were seized with panic, and threw their shares into the market, glad to be rid of them on any terms. Dreading the contingency of the shares of the bank getting into the hands of men of straw, who would not be good for possible calls, the liquidators of the City of Glasgow Bank demanded that the register of proprietors should be closed. This, the

directors intimated, they had no power to do. The liquidators replied by threatening to apply to the Court for the liquidation of the bank's affairs. Meanwhile, or rather previous to this point in the proceedings, negotiations were carried on with the Bank of Scotland with a view to the business of the Caledonian Bank being acquired by that establishment. The entanglements into which the north country bank had got its affairs would seem, however, to have been too ravelled to admit of this solution of the difficulty. They were aggravated, moreover, by a pressure which set in on the part of depositors, who were naturally unwilling complacently to rely on the responsibility of a bank which was seemingly doubted by people who might be supposed most capable of judging of its contingent liabilities. The little bank fought nobly for existence; but, baffled in its attempts to shake off liability, and refused credit for its ability to meet it, it had to succumb. On 5th December it closed its doors, and an application was made to the Court of Session for liquidation of its affairs. Eventually it was discovered that the full liability in connection with the failure of the City of Glasgow Bank would be met by a sum of £11,000—an amount equal to one half-year's profits. A guarantee fund of £150,000 was raised by the shareholders and their friends; the final decision of the question of the liability of trustees, by fixing the responsibility of the full list of contributories to the City Bank liquidation, relieved the ordinary shareholders of a large share of their problematical liability; and further occasion for proceedings against the Caledonian Bank ceased. By arrangement, the liquidation order was cancelled, and the bank resumed business after about seven months' interval.

A large amount of litigation followed the suspension of the City of Glasgow Bank. Indeed, for a long time one of the divisions of the Court of Session devoted itself entirely to City Bank cases. But, if the number of cases was notable, the admirable manner in which the Court disposed of them was equally so. Celerity and sound judgment went hand in hand, so that, in a surprisingly short space of time, the causes were satisfactorily disposed of. The great majority of the cases were for rectification of the register of shareholders; and in several cases shareholders were fortunate enough to get their names erased. But interest was centred in the great question of the liability of trustees. Only the great interests involved could have made this question worth raising. The House of Lords had unmistakably given its decision at the time of the Western Bank liquidation—a decision by which the law of Scotland was practically assimilated to that of England. Very probably, that assimilation was not warranted; but it had all the force of a legislative assimilation, as far as future cases were concerned. For there was no reason to hope that the House would stultify itself, by applying an English rule on one occasion and establishing an opposite Scotch one on another. The test case was that of *William Muir and Others for Rectification of the List of Contributories of the City of Glasgow Bank*, in which four trustees sought to evade liability on the ground that they had not agreed to become individually members of the bank. On 20th December, 1878, the Court of Session refused the petition. The case was carried to the House of Lords, but the judgment of the Court below was affirmed.

CHAPTER XXV.

LIMITATION OF LIABILITY.

THE effect on the public mind of the revelations of sufferings entailed on the shareholders of the City of Glasgow Bank, by the necessity of providing for the enormous deficit discovered in the accounts of the bank, was very strong. There was an almost wild desire to take the burden from their shoulders, or at least to ease the strain to as great an extent as possible. It was in this spirit that an association was formed with the object of promoting a great lottery to raise money, which, after payment of prizes and expenses, should be applied in meeting the bank's debts. The proposal met with a good deal of public approval; and there can be little doubt that, so far as the adhesion of supporters was concerned, it might have been carried out with considerable success. Led away by the hope of achieving a grand result in the mitigation of misery, many persons forgot that even charity must be founded on high principle. Even the Government authorities hesitated to suppress a movement which had so much good for its object, although it could with difficulty be regarded as legitimate. A little consideration, however, convinced people that to cure the City Bank troubles, by imitating the action which had caused them, and to pay gambling debts by further gambling, even although the sufferers were innocent parties, would be a violation of the national honour, and

an establishment of a precedent prejudicial to commercial morality. The Crown authorities then intimated that the scheme seemed to violate the law; and, after some reasonable negotiation, the proposal was withdrawn (January, 1879).

It then became evident that the shareholders must face their difficulties unaided. They had a duty to do, and it must be said that they did it nobly. They could not escape their responsibilities, but the spirit in which they met them was admirable. But, while the public saw that there could be no interposition between the debtors and their creditors, they were not the less resolved to stand close by and help those who fell. A relief fund subscription was opened for the benefit of those who were deprived of their means of support by the calamity. This at once met with great success. People of all classes felt relief in the opportunity of affording material assistance to, and substantially testifying their sympathy with, the hundreds of innocent sufferers whose case had engrossed their attention for months previously. The various committees throughout the country obtained subscriptions for about £400,000 within a few months. Of that very large sum only a small fraction was not eventually paid up by the subscribers, and all but about £20,000 was raised in Scotland. This result was one of which Scotland may well be proud; the more so as it was accomplished at a time when, irrespective of the direct consequences of the disaster which had occasioned it, the nation was sadly straightened by dull trade, bad harvests, and lessened incomes.

The great question which was evolved, as the main economic principle, from the experience of the crisis, was

the advisableness of continuing the system of unlimited liability of shareholders in banks. While other business establishments had, as a rule, availed themselves of the provisions of the Companies Acts permitting limitation of liability, the Scottish banks, like most of the larger English banks, had not thought it expedient to do so. Those which had not been specially incorporated were registered under the Acts as unlimited companies. The fact of any of the banks being in the enjoyment of a limitation of liabillity was questioned by many writers; but, after a fierce discussion, this argument came to nothing. It was evident to candid minds that the doctrine of limitation of liability by virtue of incorporation under special Acts of Parliament or Royal Charters was as old as the law of the land. In point of fact, the raising of the question was the result of the conflict of interests between the unlimited banks and the three old chartered banks, and not the discovery of any legal principle which had been overlooked by lawyers and statesmen for hundreds of years. An exception should be made, however, in the case of one writer among those who doubted the sufficiency of the charters to cover liability of the stockholders of the banks in question. Mr. William Mitchell,* waiving the untenable position of those who doubted that Acts of Parliament and Crown Charters conferred limitation unless the contrary was stated, founded his argument on special provisions in the constitutions of the banks themselves, whereby powers were conferred on the banks to make calls on their proprietors to a limited extent. It was shown, however, by the other side, that these provisions were of a purely optional character, had been inserted for a specific purpose,

* "Our Scotch Banks." Edinburgh, 1879, p. 84, *et seq.*

and afterwards dropped. But, even admitting that these powers are still available, the fact of their insertion is an argument in favour of the doctrine of limitation by incorporation. The proportions callable are, moreover, distinctly specified, and small in amount.

There was a general cry for legislation, but great difference of opinion existed as to what form it should take. Early in January, 1879, the Lord Advocate (now Lord M'Laren) introduced a bill providing for the auditing of the books and accounts of the banks in Scotland, but it was talked out. Later in the session, the Government took up the question on a broader basis, and introduced a bill, which, after great modifications, became the "Companies Act, 1879." It was not a measure of which its framers had much reason to be proud, but it had the effect of removing all legal difficulties which seemed to stand in the way of the adoption by some of the banks of the principle of limited liability. It also established a new system of reserve liability. The leading London banks at once adopted its provisions, and their example was largely followed by others.

The Scottish banks, however, refrained from recognising it as suitable for their needs. The three old banks held that it had no applicability to them, and the unlimited banks were fearful of appending the depreciatory word "limited" to their names. Again and again they were attacked in the public press for their hesitation. In letters to newspapers the old banks were abused for harbouring every species of evil spirit which words could define or imagination depict, as applicable to business establishments, and the other banks were taunted with weakness and cowardice. The criticism of responsible editors was,

of course, more dignified, but generally not less adverse. But the banks would take no hurried action.

At last, however, the three old banks made a movement which was a surprise to every one. In November, 1880, they individually gave notice of application to Parliament for power to increase their capitals, alter their existing capitals, and provide a large margin of responsibility of stockholders as additional security to creditors. This resolution met with little or no opposition from the proprietors of the bank, and the directors' proposals were formally confirmed by them in each case. In the public press, however, the new movement was not so favourably received, and in several cases it was denounced with more severity than accuracy of criticism; indeed, a large amount of ignorance was manifested regarding the matter. The bills were duly introduced, but met with considerable opposition in Parliament. The Government expressed objection to proceeding in such matters by private legislation, but intimated their willingness to introduce a public measure, giving the powers asked, provided the banks would agree to certain conditions, including the adoption of the term "limited" as part of their titles. In a few very able letters addressed to the Treasury, the banks showed the impossibility of their agreeing to the views of the Government; and in April, 1881, they finally closed the negotiations, and intimated that they would not proceed with their bills. This conclusion to the movement was a very happy one for the three old banks. The alterations proposed would have spoilt their constitutions, and, as experience has since shown, were not necessary for maintaining public confidence. The action of the banks, however, had a

good effect in showing that they were sincerely anxious to study public sentiment in the matter of providing enlarged security for their liabilities. There can be little doubt that, in their correspondence with the Treasury, they greatly strengthened their position in the public view, and swept away the ignorant criticism to which they had been subjected in the public press.

Shortly after the abandonment of the scheme of the old banks, the unlimited banks took into favourable consideration the propriety of adopting the provisions of the Act of 1879. The result was a mutual resolution to become limited, on the basis of having subscribed capitals five times as large as their existing paid-up capitals. In the case of the National Bank, no alteration of capital was necessary, as it stood at the required proportion; but each of the other banks had to enlarge its subscribed capital. As there was no issue of new stock, as had generally been made by the English banks adopting the Act, there was no opportunity of immediate pecuniary benefit to the shareholders. But general satisfaction was felt that limitation of liability had been accomplished, and it does not appear that this action was followed by any prejudicial effect to their business.

CHAPTER XXVI.

COMPARISON OF SCOTTISH BANKING IN 1865 AND 1883.

HAVING traced the progress of Scottish banking from its modest commencement in 1695, through trials, failures, and brilliant successes, to the present time, we may appropriately add to our sketch a review of the present position of the surviving banks, as exhibited in their latest published balance sheets, and by a contrast of that position with the statistical condition of banking in Scotland eighteen years ago—the date at which the banks first generally adopted the practice of making a public disclosure of their financial state; for, until 1865, almost absolute secrecy shrouded their affairs. Except the amount of their capitals, and the rates of dividends they paid, but little was known regarding them which could serve as a guide to intending purchasers of bank stock. Customers had to exercise blind faith as to the solidity of the establishments they dealt with, and economists had to trust pretty much to imagination in estimating the position of banking and its relations to the progress of the nation.

Since 1865 we have had an unbroken series of yearly statistics, portraying, with nearly complete accuracy, the position of the several banking establishments. The elements vitiating the accuracy of the portraiture are not numerous, nor do they materially affect the general result. The *dénouement* of the City of Glasgow Bank showed that its official reports were not worthy of implicit belief; but

it is impossible to dispense with them. Another result of the same catastrophe was the ascertainment of the fact that the actual capital devoted to banking had not been so great as had been supposed, many of the banks having held large portions of their capitals in their own names. Stock so held, while nominally still in existence, and capable of being transferred without formal re-creation, was practically non-existent, as it in no way exercised any power, or was capable of meeting any responsibility.* These holdings having now been disposed of, there has really been a greater increase in proprietors' funds than the official statements would lead one to believe. Again, although a system of publicity is, in the main, very superior to that of secrecy, it has some dangers special to itself. There is an increased tendency to what may be called "racing," with the resulting danger of over-exertion, the banks vieing with each other, consciously or unconsciously, as to the creditableness of their annual statements. As we have already seen, it was an old habit of Scotch bankers to pile up their profits from year to year, and make a grand stroke when the accumulation had reached a considerable point. While this practice, to the extent to which it was carried, is inconsistent with the interests of proprietors who may not hold long enough to participate in the distribution, there can be no doubt that it sometimes saved the banks from the effects of large losses which would otherwise have been difficult to deal with. A system of publicity tends to prevent such a

* This view of the question is controverted by some bankers, on the ground that, the capital having been actually created, taken up by subscribers, and not lost by the bank, it must still exist, although purchased by the bank. The case of the City of Glasgow Bank, however, supplies practical proof that this is a purely technical or book-keeping view of the matter.

course of action, and, in order to put on as good an appearance as for the time being they are entitled to, the banks are apt, from time to time, to lessen the extent of the hidden strength which, in times past, had secured their steady progress. Thus, the reserved fund shown in the balance sheet—drafts on which have always a serious effect in public estimation—tends to become the only source from which extraordinary losses can be met. And such losses no amount of prudence and foresight can avert—they can only provide for them. Competing openly in the eyes of the public, each bank, urged on by its shareholders, seeks to pay as high a dividend as its profits will allow. When reverses come, a sharp reduction follows, producing unreasonable disappointment on the part of investors, who seem to think they should be able both to eat their cake and have it. Of course, the main point is that provision should be made for extraordinary reverses of fortune, and, if this be done to a sufficient extent by public additions to reserve funds, the result may be the same in the long run; but the system of hidden reserves has a steadying effect on the progress of an establishment.

In the Appendix A will be found a comparative statement of banking in Scotland, as shown by the earliest and latest published reports. The progress during the eighteen years which have elapsed between these points of comparison is marvellous, and much beyond the ratio of the increase in population. The population of Scotland in 1865 was probably about 3,074,000, and an official estimate for 1883 places it at 3,825,744. The increase would thus be 751,744, or nearly 24½ per cent. But the deposits held by the banks have risen 45 per cent. during

the same period; indeed they had reached that point much earlier—viz., in 1877—although they subsequently fell, as a result of the crisis of 1878. It is probable that the improvement thus shown is actually representative of a much greater advance of the nation in material prosperity, for the competition of investment companies of all kinds has, in an intensified degree, tended to lessen the natural inflow of deposits. But, without reference to such matters, it is a striking fact that while, in 1865, the twelve banks then existing held deposit money equal to £18 12s. per head of the population, the ten banks now existing hold deposits equal to £21 14s. 1d. per head of the population.

The aggregate liabilities of the banks have increased in a slightly lower proportion than the deposits. This is owing to the comparatively small increase in the circulation of notes, and to a small decrease in the amount of paid-up capital. The reduction of capital is due to the absorption of the Central Bank and the failure of the City of Glasgow Bank. If allowance be made, however, for the portions of capital held by the banks in their own hands, and subsequently issued to the public, as already referred to, it is probable that there has been no actual decrease in the total capitals. The amount of circulation given by the reports of the banks is not reliable as a basis of calculation, as the individual amounts are merely those of the particular days on which the balances were struck. The average yearly issues showed an increase of 34 per cent. Grouping the banks for comparison, as Edinburgh, Glasgow, and country, according to the location of their head offices, the distribution of the total liabilities was, in 1865—

Edinburgh, 62 per cent.; Glasgow, 30 per cent.; country, 8 per cent. By 1883 the first group seems to have gained at the expense of both the others, for the proportions are now—Edinburgh, 70 per cent.; Glasgow, 23 per cent.; country, 7 per cent. The failure of the City of Glasgow Bank was, doubtless, the cause of this change, which was, indeed, natural, as it could not be expected that two Glasgow and three provincial banks would secure as much of the lapsed bank's business as the five large Edinburgh banks.

A striking feature of the increase in liabilities is supplied by the acceptances. (The drafts current, although conjoined in the Tables with the acceptances, as they were not usually separated in the earlier reports, do not materially affect this comparison.) The increase in this department of banking has been much more marked than that of any other, amounting, as it does, to 85 per cent. It would seem, however, that this is due mainly to that exceptionally good department of acceptance business supplied by the colonial banks drawing on London, and not so much to mercantile acceptances. It will be observed that the acceptances of some banks have actually decreased in amount.

While the public liabilities of the banks have thus extended, the banks have done much towards supporting the proportion of proprietors' funds to them. Although, as we have seen, there has been a decrease to the extent of 4 per cent in the amount of total capital, owing to the withdrawal of two banks, the amount added to reserved funds is no less than 91 per cent., or twice the proportion of increase in deposits. But the relative proportion of the proprietors' funds to public liabilities

is not quite so great as it was in 1865, the proportions being 19 per cent. in the latter year against 16 per cent. now. But, if recent issues of stock be allowed for, it is probable that that apparent falling off is deceptive.

Turning now to the assets of the banks, some interesting features are manifested. The banking advances, which might naturally have been expected to increase in somewhat similar ratio with the deposits, have actually advanced at not very much more than half the rate. This would seem to indicate that the demand for banking accommodation has not progressed to the same extent as the increase in wealth of the nation. There may have been a determinate policy on the part of the banks to strengthen the banking reserves, but it is not probable that they desired so large an increase as has actually taken place—viz., 80 per cent. The outstanding expenditure on bank buildings also shows a large increase. As there are 218 more bank offices than existed in 1865, a considerable increase is natural. But the banks have studied appearances as well; for, while the average cost of the buildings was formerly about £1600, it is now £1943.

The second Table in the Appendix, giving detailed comparative statistics, may be found interesting; but there are only two or three points brought out therein that we propose to refer to. Considering the great extension of the banking business which has taken place, a large increase in net profits might have been expected. But, on the contrary, the improvement has been very small. The ten existing banks declared, last year, profits only 3 per cent. in excess of those declared by the twelve banks carrying on business in 1865. This comparison

is, of course, quite fair, as the Central Bank and City Bank businesses are now enjoyed by the surviving banks. It is thus evident that banking in Scotland is not at present nearly so profitable as it was eighteen years ago. To a large extent this is due, doubtless, to the smaller proportion of funds now employed in banking advances, the reserve securities not yielding so high a return. But other causes probably contribute to the result. Perhaps allowance should be made for the fact that 1865 was a year of high pressure in commercial activity, the price of money ruling high during the greater portion of it, while last year was mainly one of low rates. But this will not entirely account for the disproportion of profits. The average rates of dividend and prices of stock are in accordance with the rate of increase in profits.

CHAPTER XXVII.

CONCLUSION.

THE present sketch of banking in Scotland may be fitly concluded with a short consideration of some of the leading features of the system which has made Scottish banking conspicuous among the banking systems of the world. Perhaps the chief of these is its suitability to the circumstances of the country and the genius of the nation. This may almost seem a truism, in as far as the system was of almost entirely natural growth. But this is in itself a circumstance quite unusual in other countries. Elsewhere the State has been the motive power in calling banking into existence, has moulded its character, and has regulated its action all along. In Scotland the State took little interest in the matter beyond sanctioning the formation of a few of the earliest establishments. The consequence was a naturally-evolved system, moulded by the requirements of the people.

The nation was extremely poor, with a debased and insufficient currency. Even the small amount of capital at first put into the business was a great boon to the people, but it was the note-issues, founded on the credit of the banks, that actually gave the impulse to trade. The small amount of actual capital available would, by itself, have given only temporary assistance; but, by means of the note-issues, the banks were enabled to extend their advances in proportion to the wants of the people. This, it may be thought, would lead to excess of issues; but it

does not appear that such a condition was ever experienced in Scotland. It is doubtful, indeed, if it be actually possible, where notes are not legal tender and are payable on demand. The banks had no desire and little temptation to grant advances which they did not believe to be good, as there was a great field of legitimate requirements before them. The notes so issued would at first not come back to the banks, except as worn, for there was a great vacuum of currency to be filled. Thus the profitableness and safety of early banking in Scotland are fully accounted for. The note-issues fulfilled the functions of capital, the absence of which was crippling the nation, and did so in a cheap and convenient form.

As the nation advanced in wealth, the note-issues began to lose somewhat of their indispensable character. A wealthy country can afford to indulge in a metallic currency. But, even when they might have discarded the notes, the Scottish people continued to use them as much as ever. And it was well that they did so; for, as the original function of the notes was losing somewhat of its force, a new necessity for the issues was arising. The banks were extending their branches more and more into the rural districts—an operation which could only be performed through the aid of the note-issues; for it is only in comparatively wealthy centres that a bank office can be successfully conducted on a metallic basis. From a public point of view this is at present the great argument in favour of the retention by the banks of their right of issue; and it is a very powerful one. The cost to Scotland of the abolition of these issues would be a more expensive currency, lessened banking facilities, and, probably, heavier banking charges. If the note-issues

had proved defective, this would not, perhaps, be too heavy a price to pay for security; but it seems too much to pay for the destruction of an institution which has been a vital instrument in producing the prosperity of the nation, which has never been productive of harm, which has always been thoroughly efficient, and which at the present time is a convenience to millions of people.

The cash credit system is another all-important feature of Scottish banking; but it is secondary to the note-issues. Cash credit bonds extended the range of good advances; but advances of any kind would have been impossible, except to a small extent, without the note-issues. But, as a part of the system, the cash credit was not only ingenious, but was a potent factor in the commercial progress of the nation. It secured the debt on which the notes were issued, and it enabled clever and industrious men, who had no capital of their own, to supply the requirements of the public, and to lay the foundations of individual and national wealth.

The deposit business was of slower growth than the departments we have referred to, for the simple reason that poor people have no money to deposit. But the Scotch have always been a saving people, and, when once they began to have a little more cash than was necessary for current requirements, they naturally availed themselves of the opportunity afforded by the banks of making it profitable to themselves and useful to others. As the banks have always given liberal facilities in this department, the spirit of saving was much encouraged, to the general benefit.

The widespread character of Scottish banking has been a great source of stability to it. In other countries

the general practice is that banks confine themselves to particular localities, or even to particular departments of commerce. Under such a system risks are not sufficiently spread, and a bank stands or falls according to the fortunes of a small *clientelle.* In Scotland, also, this system was general for long, and it is only in comparatively recent times that it has entirely disappeared. But with the gradual consolidation, which is so marked a feature of its history, Scottish banking sought more and more a national basis. This it has now attained to, for there are no banks confining their operations within very limited areas. The provincial banks may be deemed a partial exception, but even they are fairly widespread. The banks have thus a strength and solidity such as is not general in other countries. In the United States, for instance, so-called national banks are to be found in every town, but their nationality consists in nothing more than the securing of their note-issues by a deposit of Government bonds. Every month a long list of new banks appears, and along with it a similar list of failures. These banks seem to be mere associations of small capitalists establishing themselves as single offices—a system of essential instability. Even in England the number of small local banks is very great.

But, if Scottish banking has now secured what, as regards its principles, may be considered an ideal condition, it has not done so without suffering in many severe struggles. The Legislature wisely left it to itself —or rather the indifference of the Government allowed it to fight for its own existence; but, if it suffered nothing from the attentions of the State, it had, on the other hand, to devise its own principles and form its own practice—

operations of great difficulty and danger. It had to meet crises without proper knowledge of how they should be met, beyond that supplied by mother wit. In consequence, there were many stumbles and many falls. But a sound bank, in the early days, was hardly any the worse for stopping payment. At one time, as we have seen, all the banks stopped payment, the only result being a temporary excitement on the part of the commonalty, arising from the inconvenience of not getting change for £1 notes. During another crisis, almost all the Edinburgh private banks were swept away; but those who remained gained in credit and in experience. These were the blows that moulded the system, and it is surprising that the total loss sustained by creditors from the failure of banks in Scotland is quite insignificant.

But, it may be said, the Scottish banks have, within the period of what may fairly be considered the matured system, supplied two instances of gross failure, the later of which is probably the most disgraceful which any thoroughly consolidated country has experienced. It must be admitted that this is so, and that the three great banking disasters of Scotland—the Ayr Bank, the Western Bank, and the City of Glasgow Bank—show an appalling increase in ratio of calamity. And it is not sufficient answer to say that these events were the result of departure from the general system. They certainly were so—nay, it was the ignoring of the principles and practice which experience had established as the general rule that produced the ruin of these banks. But they cannot be excluded from the general estimate of Scottish banking. Indeed, it may be said, that in no other country than Scotland could such a case as that of the City of Glasgow

Bank have happened. The excellence of the banking system had commended itself to the Scottish public in a manner not elsewhere experienced in regard to private companies, and it was this blind trust that rendered the disaster possible. The only answer to the accusation is, that men fail in their strongest point. The lessons to be derived from these experiences are, however, of more moment than accounting for them. These have been preached, rightly and wrongly, to such an extent, and acted on so wholesomely, that it only requires vigilant interest on the part of proprietors, depositors, and the public, to avert such events in the future. And in regard to such vigilance, nothing is of more importance than insisting on the continued observance of the principles and practice which have proved so successful, and resisting new departures such as, under the specious assertion of a necessity for extended facilities, have three times brought grievous disaster on the nation.

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Appendix B.

AMALGAMATIONS AMONG THE SCOTTISH BANKS.

I.—AMALGAMATIONS WITH THE EXISTING BANKS.

1. Bank of Scotland.
   - Central Bank of Scotland.
2. Royal Bank of Scotland.
   - Dundee Banking Company.
     - Dundee New Bank.
       - Dundee Commercial Banking Coy. (No. 1).
3. British Linen Company.
   - Paisley Banking Company.
4. Commercial Bank of Scotland.
   - Caithness Banking Company.
   - Arbroath Banking Company.
5. National Bank of Scotland.
   - Commercial Banking Company of Aberdeen.
   - Perth Union Bank.
6. Union Bank of Scotland.
   - Glasgow Union Banking Company.
   - Thistle Bank Company.
   - Sir Wm. Forbes, J. Hunter & Coy.
   - Glasgow and Ship Bank.
     - Glasgow Bank Company.
     - Ship Bank.
   - Paisley Union Bank Company.
   - Hunters & Co., Ayr.
     - Kilmarnock Banking Company.
   - Banking Company in Aberdeen.
   - Perth Banking Coy., formerly Perth United Coy.
7. Clydesdale Bank.
   - Greenock Union Bank.
   - Edinburgh and Glasgow Bank.
     - Edinburgh and Leith Bank.
       - Southern Bank of Scotland.
     - Glasgow Joint Stock Bank.
   - Eastern Bank of Scotland.
     - Dundee Commercial Bank (No. 2).

AMALGAMATIONS AMONG THE SCOTTISH BANKS.

II.—AMALGAMATIONS WITH BANKS WHICH HAVE FAILED.

1. DOUGLAS, HERON & Co., or AYR BANK.
   - John Macadam & Coy., Ayr.
   - Alexander Johnston, Hugh Lawson & Co., Dumfries.

2. KINNEARS, SMITH & Co.
   - Thomas Kinnear & Sons.
   - Donald Smith & Co.

3. WESTERN BANK OF SCOTLAND.
   - Greenock Banking Company.
   - Dundee Union Bank.
     - Montrose Bank.
   - Paisley Commercial Bank.
   - Ayrshire Banking Company.
   - Glasgow Banking Company (No. 2).

4. CITY OF GLASGOW BANK.
   - Bank of Mona.

Appendix C.

NOTE ISSUES OF THE SCOTTISH BANKS.

Banks issuing under Act of 1845.	Authorised Issues.		Average Issues.	
	1845.	1884.	1863-4.	1882-3.
	£	£	£	£
Bank of Scotland,	300,485	343,418	472,148	868,190
Royal,	183,000	216,451	502,974	798,229
British Linen Company,	438,024	438,024	491,703	656,305
Dundee,	33,451	—	46,259	—
Perth,	38,656	—	—	—
Aberdeen,	88,467	—	—	—
Commercial,	374,880	374,880	537,840	793,413
National,	297,024	297,024	454,375	659,768
Town and County,	70,133	70,133	135,446	212,443
Union,	327,223	454,346	592,519	809,511
Ayrshire,	53,656	—	—	—
Western,	284,282	—	—	—
Central,	42,933	—	59,450	—
North of Scotland,	154,319	154,319	205,373	383,363
Clydesdale,	104,028	274,321	368,850	573,171
Caledonian,	53,434	53,434	72,169	100,172
Eastern,	33,636	—	—	—
City of Glasgow,	72,921	—	357,581	—
Edinburgh and Glasgow,	136,657	—	—	—
Totals,	3,087,209	2,676,350	4,296,687	5,854,565

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